FED

12 CFR Part 327

RIN 3064-AF83

Assessments, Revised Deposit Insurance Assessment Rates

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice of proposed rulemaking.

SUMMARY: The FDIC is seeking comment on a proposed rule that would increase initial base deposit insurance assessment rates by 2 basis points, beginning with the first quarterly assessment period of 2023. The proposal would increase the likelihood that the reserve ratio would reach the required minimum level of 1.35 percent by the statutory deadline of September 30, 2028, consistent with the FDIC's Amended Restoration Plan, and is intended to support growth in the Deposit Insurance Fund (DIF or fund) in progressing toward the FDIC's long-term goal of a 2 percent Designated Reserve Ratio (DRR).

DATES: Comments must be received no later than August 20, 2022.

ADDRESSES: You may submit comments on the notice of proposed rulemaking using any of the following methods:

- *Agency Website: https://www.fdic.gov/resources/regulations/federal-register-publications/.* Follow the instructions for submitting comments on the agency website.
- *E-mail*: *comments@fdic.gov*. Include RIN 3064-AF83 on the subject line of the message.
- *Mail*: James P. Sheesley, Assistant Executive Secretary, Attention: Comments-RIN 3064-AF83, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429.
- *Hand Delivery*: Comments may be hand delivered to the guard station at the rear

of the 550 17th Street NW building (located on F Street NW) on business days between 7 a.m. and 5 p.m.

- *Public Inspection*: Comments received, including any personal information provided, may be posted without change to *https://www.fdic.gov/resources/regulations/federal-register-publications/.* Commenters should submit only information that the commenter wishes to make available publicly. The FDIC may review, redact, or refrain from posting all or any portion of any comment that it may deem to be inappropriate for publication, such as irrelevant or obscene material. The FDIC may post only a single representative example of identical or substantially identical comments, and in such cases will generally identify the number of identical or substantially identical comments represented by the posted example. All comments that have been redacted, as well as those that have not been posted, that contain comments on the merits of this document will be retained in the public comment file and will be considered as required under all applicable laws. All comments may be accessible under the Freedom of Information Act.

FOR FURTHER INFORMATION CONTACT: Michael Spencer, Associate Director, Financial Risk Management Branch, 202-898-7041, *michspencer@fdic.gov*; Ashley Mihalik, Chief, Banking and Regulatory Policy, 202-898-3793, *amihalik@fdic.gov*; Kayla Shoemaker, Senior Policy Analyst, 202-898-6962, *kashoemaker@fdic.gov*; Sheikha Kapoor, Senior Counsel, 202-898-3960, *skapoor@fdic.gov*; Ryan McCarthy, Senior Attorney, 202-898-7301, *rymccarthy@fdic.gov*.

SUPPLEMENTARY INFORMATION:

I. Legal Authority and Policy Objectives

The FDIC, under its general rulemaking authority in Section 9 of the Federal Deposit Insurance Act (FDI Act), and its specific authority under Section 7 of the FDI

Act to set assessments, is proposing to increase initial base deposit insurance assessment rates by 2 basis points, effective January 1, 2023, and applicable to the first quarterly assessment period of 2023 (i.e., January 1- March 31, 2023).[1]

The proposed increase in initial base assessment rates is intended to achieve two objectives. First, the proposal is intended to increase assessment revenue in order to build the DIF, which is used to pay deposit insurance in the event of failure of an insured depository institution (IDI), and to restore the reserve ratio to the statutory minimum of 1.35 percent within the deadline set by statute, consistent with the Restoration Plan, as amended by the FDIC Board of Directors (Board) on June 21, 2022 (Amended Restoration Plan).[2] While the banking industry has remained a source of strength for the economy and the DIF has experienced low losses from IDI failures in recent years, slowing growth in the fund balance combined with continued elevated estimated insured deposit levels, described below, have decreased the likelihood that the reserve ratio will meet the statutory minimum by September 30, 2028.[3] The proposal would increase the likelihood that the reserve ratio will meet the statutory minimum by the required deadline and reduce the likelihood that the FDIC would need to raise assessment rates during a potential future period of banking industry stress.

Second, the proposed change in assessment rates is further intended to support growth in the DIF in progressing toward the 2 percent DRR. Therefore, the proposed assessment rate schedules would remain in effect unless and until the reserve ratio meets or exceeds 2 percent, absent further Board action. This continued growth in the DIF is intended to reduce the likelihood that the FDIC would need to consider a potentially pro-

[1] *See* 12 U.S.C. 1817 and 1819.
[2] Under the FDI Act, a restoration plan must restore the reserve ratio to at least 1.35 percent within 8 years of establishing the restoration plan, absent extraordinary circumstances. *See* 12 U.S.C. 1817(b)(3)(E). The reserve ratio is calculated as the ratio of the net worth of the DIF to the value of the aggregate estimated insured deposits at the end of a given quarter. *See* 12 U.S.C. 1813(y)(3).
[3] 12 U.S.C. 1817(b)(3)(E)(ii). As used in this proposed rule, the term "bank" is synonymous with the term ''insured depository institution'' as it is used in section 3(c)(2) of the FDI Act, 12 U.S.C. 1813(c)(2).

cyclical assessment rate increase, and to increase the likelihood of the DIF remaining positive through potential future periods of significant losses due to bank failures, consistent with the FDIC's long-term fund management plan.[4] A sufficiently large fund is a necessary precondition to maintaining a positive fund balance during a banking crisis and allowing for long-term, steady assessment rates. Accomplishing these objectives also would continue to ensure public confidence in federal deposit insurance.

II. Background

A. Restoration Plan

Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the DIF reserve ratio to decline below the statutory minimum of 1.35 percent.[5] As of June 30, 2020, the reserve ratio had fallen below the statutory minimum and stood at 1.30 percent. The FDI Act requires that the Board adopt a restoration plan when the DIF reserve ratio falls below the statutory minimum of 1.35 percent or is expected to within 6 months.[6] On September 15, 2020, the Board adopted the Restoration Plan to restore the DIF to at least 1.35 percent by September 30, 2028.[7]

In its June 21, 2022, semiannual update to the Board, FDIC projections of the reserve ratio under different scenarios reflected that the reserve ratio is at risk of not reaching 1.35 percent by September 30, 2028, the end of the statutory 8-year period.[8] The scenarios are based on updated data and analysis and incorporate different rates of insured deposit growth and weighted average assessment rates, including sustained elevated insured deposit balances and lower assessment rates than previously anticipated. On June 21, 2022, the Board approved the Amended Restoration Plan, which reflects an increase in initial base deposit insurance assessment rates of 2 basis points, beginning

---

[4] *See* 75 FR 66273 (Oct. 27, 2010) and 76 FR 10672 (Feb. 25, 2011).
[5] *See* 12 U.S.C. 1817(b)(3)(B).
[6] *See* 12 U.S.C. 1817(b)(3)(E).
[7] *See* 85 FR 59306 (Sept. 21, 2020).
[8] *See* FDIC Restoration Plan Semiannual Update, June 21, 2022. Available at *https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-sum-b-mem.pdf*.

with the first quarterly assessment period of 2023. Accordingly, the FDIC is concurrently publishing in the **Federal Register** an Amended Restoration Plan.

B. Designated Reserve Ratio

The FDI Act requires that the Board designate a reserve ratio for the DIF and publish the DRR before the beginning of each calendar year.[9] The Board must set the DRR in accordance with its analysis of certain statutory factors: risk of losses to the DIF; economic conditions generally affecting IDIs; preventing sharp swings in assessment rates; and any other factors that the Board determines to be appropriate.[10]

In 2010, the FDIC proposed and later adopted a comprehensive, long-term management plan for the DIF with the following goals: (1) reduce the pro-cyclicality in the existing risk-based assessment system by allowing moderate, steady assessment rates throughout economic and credit cycles; and (2) maintain a positive fund balance even during a banking crisis by setting an appropriate target fund size and a strategy for assessment rates and dividends.[11] Based on the FDIC's experience through two banking crises, the analysis concluded that a long-term moderate, steady assessment rate of 5.29 basis points would have been sufficient to prevent the fund from becoming negative during the crises.[12] The FDIC also found that the fund reserve ratio would have had to exceed 2 percent before the onset of the last two crises to achieve these results.[13]

---

[9] Section 7(b)(3)(A) of the FDI Act, 12 U.S.C. 1817(b)(3)(A). The DRR is expressed as a percentage of estimated insured deposits.

[10] Section 7(b)(3)(C) of the FDI Act, 12 U.S.C. 1817(b)(3)(C).

[11] *See* 75 FR 66272 (Oct. 27, 2010) (October 2010 NPR) and 76 FR 10672 (Feb. 25, 2011).

[12] *See* 75 FR 66273 and 76 FR 10675.

[13] The analysis set out in the October 2010 NPR sought to determine what assessment rates would have been needed to maintain a positive fund balance during the last two crises. This analysis used an assessment base derived from domestic deposits to calculate assessment income. The Dodd-Frank Wall Street Reform and Consumer Protection Act, however, required the FDIC to change the assessment base to average consolidated total assets minus average tangible equity. In the December 2010 final rule establishing a 2 percent DRR, the FDIC undertook additional analysis to determine how the results of the original analysis would change had the new assessment base been in place from 1950 to 2010. Both the analyses in the October 2010 NPR and the December 2010 final rule show that the fund reserve ratio would have needed to be approximately 2 percent or more before the onset of the crises to maintain both a positive fund balance and stable assessment rates. The updated analysis in the December 2010 final rule, like the analysis in the October 2010 NPR, assumed, in lieu of dividends, that the long-term industry average nominal assessment rate would be reduced by 25 percent when the reserve ratio reached 2 percent, and by

The FDIC's comprehensive, long-term fund management plan combines the moderate, steady assessment rate with a DRR of 2 percent. The Board set the DRR at 2 percent in 2010 and has voted annually since then to maintain the 2 percent DRR, most recently in December 2021.[14] The FDIC views the DRR as a long-range, minimum goal that will allow the fund to grow sufficiently large during times of favorable banking conditions, increasing the likelihood that the DIF will remain positive throughout periods of significant losses due to bank failures. Additionally, in lieu of dividends, the long-term plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2 percent and 2.5 percent. Because analysis shows that a reserve ratio higher than 2 percent increases the chance that the fund will remain positive during a crisis, the 2 percent DRR should not be treated as a cap on the size of the fund.[15]

C. Deposit Insurance Assessments

Pursuant to Section 7 of the FDI Act, the FDIC has established a risk-based assessment system through which it charges all IDIs an assessment amount for deposit insurance.[16]

Under the FDIC's regulations, an IDI's assessment is equal to its assessment base multiplied by its risk-based assessment rate.[17] Generally, an IDI's assessment base equals its average consolidated total assets minus its average tangible equity.[18] An IDI's assessment rate is determined each quarter based on supervisory ratings and information collected on the Consolidated Reports of Condition and Income (Call Report) or the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002), as appropriate. An IDI's assessment rate is calculated using different methods based

---

50 percent when the reserve ratio reached 2.5 percent. Eliminating dividends and reducing rates successfully limits rate volatility whichever assessment base is used. *See* 75 FR 66273 and 75 FR 79288 (Dec. 20, 2010) (December 2010 final rule).

[14] *See* 75 FR 79286 (Dec. 20, 2010), codified at 12 CFR 327.4(g), and 86 FR 71638 (Dec. 17, 2021).

[15] *See* 75 FR 66273 and 75 FR 79287.

[16] *See* 12 U.S.C. 1817(b).

[17] *See* 12 CFR 327.3(b)(1).

[18] *See* 12 CFR 327.5.

on whether the IDI is a small, large, or highly complex institution.[19] For assessment purposes, a small bank is generally defined as an institution with less than $10 billion in total assets, a large bank is generally defined as an institution with $10 billion or more in total assets, and a highly complex bank is generally defined as an institution that has $50 billion or more in total assets and is controlled by a parent holding company that has $500 billion or more in total assets, or is a processing bank or trust company.[20]

Assessment rates for established small banks are calculated based on eight risk measures that are statistically significant in predicting the probability of an institution's failure over a three-year horizon.[21]

Large and highly complex institutions are assessed using a scorecard approach that combines CAMELS ratings and certain forward-looking financial measures to assess the risk that a large or highly complex bank poses to the DIF.[22]

All institutions are subject to adjustments to their assessment rates for certain liabilities that can increase or reduce loss to the DIF in the event the bank fails.[23] In addition, the FDIC may adjust a large bank's total score, which is used in the calculation of its assessment rate, based upon significant risk factors not adequately captured in the appropriate scorecard.[24]

D. Current Assessment Rate Schedules

In 2011, consistent with the FDIC's long-term fund management plan, the FDIC adopted lower, moderate assessment rates that would go into effect when the DIF reserve ratio reached 1.15 percent.[25] In 2016, the FDIC amended its rules to refine the deposit

---

[19] *See* 12 CFR 327.16(a) and (b).
[20] As used in this proposed rule, the term "small bank" is synonymous with the term "small institution" and the term "large bank" is synonymous with the term "large institution" or "highly complex institution," as the terms are defined in 12 CFR 327.8(e), (f), and (g), respectively.
[21] *See* 12 CFR 327.16(a); *see also* 81 FR 32180 (May 20, 2016).
[22] *See* 12 CFR 327.16(b); *see also* 76 FR 10672 (Feb. 25, 2011) and 77 FR 66000 (Oct. 31, 2012).
[23] *See* 12 CFR 327.16(e).
[24] *See* 12 CFR 327.16(b)(3); *see also* Assessment Rate Adjustment Guidelines for Large and Highly Complex Institutions, 76 FR 57992 (Sept. 19, 2011).
[25] See 76 FR 10683-10688.

insurance assessment system for established small IDIs (i.e. small IDIs that have been federally insured for at least five years) and preserved the lower overall range of initial base assessment rates adopted in 2011 pursuant to the long-term fund management plan.[26] Those rates are currently in effect and are detailed in the sections that follow. In addition, the Board is authorized to uniformly increase or decrease the total base rate assessment schedule up to a maximum of 2 basis points or a fraction thereof, as the Board deems necessary, without further rulemaking.[27]

Established Small Institutions and Large and Highly Complex Institutions

Current initial base assessment rates for established small institutions and large and highly complex institutions are set forth in Table 1 below.[28]

Table 1 – Current Initial Base Assessment Rate Schedule Applicable to Established Small Institutions and Large and Highly Complex Institutions[1]

	Established Small Institutions			**Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	**3**	**4 or 5**	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30

[1] All amounts for all risk categories are in basis points annually. Initial base rates that are not the minimum or maximum rate will vary between these rates.

An institution's total base assessment rate may vary from the institution's initial base assessment rate as a result of possible adjustments for certain liabilities that can increase or reduce loss to the DIF in the event the institution fails.[29] After applying all possible adjustments, the current minimum and maximum total base assessment rates for established small institutions and large and highly complex institutions are set out in

[26] *See* 81 FR 32189-32191.
[27] *See* 12 CFR 327.10(f)(3). However, the lowest initial base assessment rate cannot be negative.
[28] *See* 12 CFR 327.10(b)(1). An established insured depository institution is a bank or savings association that has been federally insured for at least five years as of the last day of any quarter for which it is being assessed. *See* 12 CFR 327.8(k).
[29] *See* 12 CFR 327.16(e).

Table 2 below.[30]

Table 2 – Current Total Base Assessment Rate Schedule (After Adjustments) Applicable to Established Small Institutions and Large and Highly Complex Institutions[1, 2]

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30
Unsecured Debt Adjustment[3]	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	1.5 to 16	3 to 30	11 to 30	1.5 to 40

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.
[3] The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 3 basis points will have a maximum unsecured debt adjustment of 1.5 basis points and cannot have a total base assessment rate of lower than 1.5 basis points.

The assessment rates currently applicable to established small institutions and large and highly complex institutions in Tables 1 and 2 above will remain in effect unless and until the reserve ratio meets or exceeds 2 percent.[31]

New Small Institutions

Current assessment rates applicable to new small institutions are set forth in Tables 3 and 4 below.[32] New small institutions will remain subject to the

---

[30] *See* 12 CFR 327.10(b)(2).
[31] In lieu of dividends, and pursuant to the FDIC's authority to set assessments, the progressively lower initial base and total base assessment rates set forth in 12 CFR 327.10(c) and (d) will come into effect without further action by the Board when the fund reserve ratio at the end of the prior assessment period reaches 2 percent and 2.5 percent, respectively.
[32] *See* 12 CFR 327.10(e)(1)(iii)(A) and (B). Subject to exceptions, a new depository institution is a bank or savings association that has been federally insured for less than five years as of the last day of any quarter for which it is being assessed. *See also* 12 CFR 327.8(j).

assessment schedules in Tables 3 and 4 when the reserve ratio reaches 2 percent or 2.5 percent.[33] As stated in the 2010 NPR describing the long-term comprehensive fund management plan, and adopted in the 2011 Final Rule, the lower assessment rate schedules applicable when the reserve ratio reaches 2 percent and 2.5 percent do not apply to any new depository institutions; these institutions will remain subject to the assessment rates shown below, until they no longer are new depository institutions.[34]

Table 3 – Current Initial Base Assessment Rate Schedule Applicable to New Small Institutions[1]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Assessment Rate	7	12	19	30

[1] All amounts for all risk categories are in basis points annually.

Table 4 – Current Total Base Assessment Rate Schedule (After Adjustments) Applicable to New Small Institutions[1, 2]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Assessment Rate	7	12	19	30
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	7	12 to 22	19 to 29	30 to 40

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

Insured Branches of Foreign Banks

Current assessment rates applicable to insured branches of foreign banks are set

[33] *See* 12 CFR 327.10(e)(1)(iii)(B).
[34] *See* 75 FR 66283 and 76 FR 10686.

forth in Table 5 below.[35] The rates in Tables 5 will remain in effect unless and until the reserve ratio meets or exceeds 2 percent.[36]

Table 5 – Current Initial and Total Base Assessment Rate Schedule[1] Applicable to Insured Branches of Foreign Banks[2]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial and Total Assessment Rate	3 to 7	12	19	30

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Initial and total base rates that are not the minimum or maximum rate will vary between these rates.

III. The Proposed Rule

A. Overview of the Proposal

The FDIC is proposing to increase initial base deposit insurance assessment rates uniformly by 2 basis points, beginning with the first quarterly assessment period of 2023. The proposed change is intended to increase assessment revenue in order to raise the reserve ratio to the minimum threshold of 1.35 percent within 8 years of the Restoration Plan's initial establishment, as required by statute, and consistent with the Amended Restoration Plan, and is intended to support growth in the DIF in progressing toward the 2 percent DRR. The proposed assessment rate schedules would remain in effect unless and until the reserve ratio meets or exceeds 2 percent, absent further Board action.

The proposed change in assessment rates would bring the average assessment rate close to the moderate steady assessment rate that would have been required to maintain a positive DIF balance from 1950 to 2010, identified as part of the long-term,

[35] *See* 12 CFR 327.10(e)(2)(i).
[36] In lieu of dividends, and pursuant to the FDIC's authority to set assessments, the progressively lower initial base and total base assessment rates set forth in 12 CFR 327.10(e)(2)(ii) and (iii) will come into effect without further action by the Board when the fund reserve ratio at the end of the prior assessment period reaches 2 percent and 2.5 percent, respectively.

comprehensive fund management plan in 2011.[37] This continued growth in the DIF is intended to reduce the likelihood that the FDIC would need to consider a potentially pro-cyclical assessment rate increase, and to increase the likelihood of the DIF remaining positive through potential future periods of significant losses due to bank failures. In lieu of dividends, the progressively lower assessment rate schedules currently in the regulation will remain unchanged and will come into effect without further action by the Board when the fund reserve ratio at the end of the prior assessment period reaches 2 percent and 2.5 percent, respectively.[38] The FDIC is not proposing changes to the rate schedules that come into effect when the reserve ratio reaches 2 and 2.5 percent.

The FDIC proposes to retain the Board's flexibility to adopt higher or lower total base assessment rates, provided that the Board cannot increase or decrease rates from one quarter to the next by more than 2 basis points, and cumulative increases and decreases cannot be more than 2 basis points higher or lower than the total base assessment rates set forth in the assessment rate schedules.[39] Retention of this flexibility will continue to allow the Board to act in a timely manner to fulfill its mandate to raise the reserve ratio, particularly in light of the uncertainty related to insured deposit growth and the economic outlook.

B. Proposed Assessment Rate Schedules

Proposed Assessment Rates for Established Small Institutions and Large and Highly Complex Institutions

Pursuant to the FDIC's authority to set assessments, the proposed initial and total base assessment rates applicable to established small institutions and large and highly complex institutions set forth in Tables 6 and 7 below would take effect beginning with the first quarterly assessment period of 2023.

---

[37] *See* 75 FR 66273 and 76 FR 10675.
[38] *See* 12 CFR 327.10(c) and (d).
[39] *See* 12 CFR 327.10(f).

Table 6 – Proposed Initial Base Assessment Rate Schedule Beginning the First Assessment Period of 2023, Where the Reserve Ratio as of the End of the Prior Assessment Period Is Less Than 2 Percent[1]

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	5 to 18	8 to 32	18 to 32	5 to 32

[1] All amounts are in basis points annually. Initial base rates that are not the minimum or maximum rate will vary between these rates.

An institution's total base assessment rate may vary from the institution's initial base assessment rate as a result of possible adjustments for certain liabilities that can increase or reduce loss to the DIF in the event the institution fails.[40] These adjustments do not reflect a change and are consistent with the current assessment regulations. After applying all possible adjustments, the proposed minimum and maximum total base assessment rates applicable to established small institutions and large and highly complex institutions are set out in Table 7 below.

[40] *See* 12 CFR 327.16(e).

Table 7 – Proposed Total Base Assessment Rate Schedule (After Adjustments)[1] Beginning the First Assessment Period of 2023, Where the Reserve Ratio as of the End of the Prior Assessment Period Is Less Than 2 Percent[2]

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	5 to 18	8 to 32	18 to 32	5 to 32
Unsecured Debt Adjustment[3]	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	2.5 to 18	4 to 32	13 to 32	2.5 to 42

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.
[3] The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 5 basis points will have a maximum unsecured debt adjustment of 2.5 basis points and cannot have a total base assessment rate of lower than 2.5 basis points.

The proposed rates applicable to established small institutions and large and highly complex institutions in Tables 6 and 7 above would remain in effect unless and until the reserve ratio meets or exceeds 2 percent. In lieu of dividends, and pursuant to the FDIC's authority to set assessments, progressively lower initial and total base assessment rate schedules applicable to established small institutions and large and highly complex institutions as currently set forth in 12 CFR 327.10(c) and (d) will come into effect without further action by the Board when the fund reserve ratio at the end of the prior assessment period reaches 2 percent and 2.5 percent, respectively.[41] The FDIC is not proposing changes to these progressively lower assessment rate schedules.

[41] *See* 12 CFR 327.10(c) and (d).

Proposed Assessment Rates for New Small Institutions

Pursuant to the FDIC's authority to set assessments, the initial and total base assessment rates applicable to new small institutions set forth in Tables 8 and 9 below would take effect beginning with the first quarterly assessment period of 2023. New small institutions would remain subject to the assessment schedules in Tables 8 and 9, even when the reserve ratio reaches 2 percent or 2.5 percent, until they no longer were new depository institutions, consistent with current assessment regulations.

Table 8 – Proposed Initial Base Assessment Rate Schedule Beginning the First Assessment Period of 2023 and for All Subsequent Assessment Periods, Applicable to New Small Institutions[1]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Assessment Rate	9	14	21	32

[1] All amounts for all risk categories are in basis points annually.

Table 9 – Proposed Total Base Assessment Rate Schedule (After Adjustments)[1] Beginning the First Assessment Period of 2023 and for all Subsequent Assessment Periods, Applicable to New Small Institutions[2]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Assessment Rate	9	14	21	32
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	9	14 to 24	21 to 31	32 to 42

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

Proposed Assessment Rates for Insured Branches of Foreign Banks

Pursuant to the FDIC's authority to set assessments, the initial and total base assessment rates applicable to insured branches of foreign banks set forth in Table 10 below would take effect beginning with the first quarterly assessment period of 2023.

Table 10 – Proposed Initial and Total Base Assessment Rate Schedule[1] Beginning the First Assessment Period of 2023, Where the Reserve Ratio as of the End of the Prior Assessment Period is Less Than 2 Percent, Applicable to Insured Branches of Foreign Banks[2]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial and Total Assessment Rate	5 to 9	14	21	32

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Initial and total base rates that are not the minimum or maximum rate will vary between these rates.

The proposed rates applicable to insured branches of foreign banks in Table 10 above would remain in effect unless and until the reserve ratio meets or exceeds 2 percent. In lieu of dividends, and pursuant to the FDIC's authority to set assessments, progressively lower initial and total base assessment rate schedules applicable to insured branches of foreign banks as currently set forth in 12 CFR 327.10(e)(2)(ii) and (iii) will come into effect without further action by the Board when the fund reserve ratio at the end of the prior assessment period reaches 2 percent and 2.5 percent, respectively. The FDIC is not proposing changes to these progressively lower assessment rate schedules.

C. Conforming, Technical, and Other Amendments to the Assessment Regulations

Conforming Amendments

The FDIC is proposing conforming amendments in §§ 327.10 and 327.16 of the FDIC′s assessment regulations to effectuate the modifications described above. These conforming amendments would ensure that the proposed uniform increase in initial base deposit insurance assessment rates of 2 basis points is properly incorporated into the assessment regulation provisions governing the calculation of an IDI′s quarterly deposit insurance assessment. The FDIC is proposing revisions to § 327.10 to reflect the assessment rate schedules that would be applicable before and after the effective date of this proposal (i.e., January 1, 2023). The FDIC also is proposing to revise the uniform amounts for small banks and insured branches in §§ 327.16(a) and (d), respectively, to reflect the 2 basis point increase. Aside from the proposed revisions to reflect the assessment rate schedules, no additional revisions are required for the regulatory text applicable to large or highly complex banks because the formula in § 327.16(b) used to calculate their assessment rates incorporates the minimum and maximum initial base assessment rates then in effect.

Technical Amendments

As a technical change, the FDIC is rescinding certain rate schedules in § 327.10 that are no longer in effect. FDIC regulations provided for changes to deposit insurance assessment rates the quarter after the reserve ratio first reached or surpassed 1.15 percent, which occurred in the third quarter of 2016.[42] The FDIC is rescinding the outdated and obsolete provisions of, and revising references to, the superseded assessment rate schedules in its regulations. These changes impose no new requirements on FDIC-supervised institutions.

The FDIC also is rescinding in its entirety § 327.9—Assessment Pricing Methods, as such section is no longer applicable. The relevant section that includes the method for calculating risk-based assessments for all IDIs, particularly established small banks, is now in § 327.16, which was adopted by the Board in a final rule on April 26, 2016. That final rule became applicable the calendar quarter in which the reserve ratio of the DIF reached 1.15 percent, i.e. the third quarter of 2016.[43] The FDIC also will make technical amendments to remove all references to § 327.9.

---

[42] *See* 76 FR 10672 (Feb. 25, 2011) and 81 FR 32180 (May 20, 2016). In 2016, the FDIC amended its rules to refine the deposit insurance assessment system for established small IDIs (i.e. those small IDIs that have been federally insured for at least five years). The final rule preserved the lower overall range of initial base assessment rates adopted in 2011 pursuant to the long-term fund management plan.

[43] *See* 81 FR 32180 (May 20, 2016).

Other Amendments

The FDIC is proposing additional amendments to update and conform Appendix A to subpart A of part 327—Method to Derive Pricing Multipliers and Uniform Amount in accordance with the current assessment regulations. Specifically, the FDIC is proposing to remove sections I through V, which were superseded by the 2016 final rule revising the method to calculate risk-based assessment rates for established small IDIs.[44] The FDIC is proposing to replace the current language of sections I through V of Appendix A to subpart A of part 327 with the content of a previously proposed, but inadvertently not adopted, Appendix E—Method to Derive Pricing Multipliers and Uniform Amount. Appendix E was published in the 2016 revised notice of proposed rulemaking refining the deposit insurance assessment system for established small IDIs.[45] Appendix E was inadvertently not included in the final rule.

Under the 2016 final rule, initial base assessment rates for established small banks are calculated by applying statistically derived pricing multipliers to weighted CAMELS components and financial ratios; then adding the products to a uniform amount.[46] The content of Appendix E describes the statistical model on which the revised and current pricing method is based and, accordingly, revises the method to derive the pricing multipliers and uniform amount used to determine the assessment rate schedules currently in effect.[47]

The proposed revisions to Appendix A to subpart A of part 327 will result in: the removal of the superseded language currently in sections I through V; the addition of the language of Appendix E from the 2016 revised notice of proposed rulemaking reflecting

[44] *See* 81 FR 32180 (May 20, 2016).
[45] *See* 81 FR 6153-6155 (Feb. 4, 2016).
[46] *See* 81 FR 32181.
[47] *See* 81 FR 32191; *see also* 81 FR 6116-17. Note, subsequent to the adoption of the 2016 final rule, the FDIC made other conforming and technical amendments to the assessment regulations at 12 CFR part 327 resulting from other rulemakings. The content of Appendix E does not need to be updated to reflect such conforming and other technical amendments and will be incorporated into the current Appendix A without change. *See* 83 FR 14565 (Apr. 5, 2018), 84 FR 1346 (Feb. 4, 2019), and 85 FR 71227 (Nov. 9, 2020).

the revised and current pricing method; and the retention of the current language (without change) of section VI (Description of Scorecard Measures) that applies to large and highly complex institutions.

D. Analysis

In setting assessment rates, the Board is authorized to set assessments for IDIs in such amounts as the Board may determine to be necessary or appropriate.[48] In setting assessment rates, the Board is required by statute to consider the following factors:

(i) The estimated operating expenses of the DIF.

(ii) The estimated case resolution expenses and income of the DIF.

(iii) The projected effects of the payment of assessments on the capital and earnings of IDIs.

(iv) The risk factors and other factors taken into account pursuant to section 7(b)(1) of the FDI Act (12 U.S.C. 1817(b)(1)) under the risk-based assessment system, including the requirement under such section to maintain a risk-based system.[49]

(v) Other factors the Board has determined to be appropriate.[50]

The following summarizes the factors considered in proposing a uniform increase in initial base assessment rates of 2 basis points.

Assessment Revenue Needs

Under the Restoration Plan, the FDIC is monitoring deposit balance trends, potential losses, and other factors that affect the reserve ratio. Table 11 shows the components of the reserve ratio for the third quarter of 2021 through the first quarter of 2022. Growth in insured deposits outpaced growth in the DIF, resulting in a decline in the

---

[48] 12 U.S.C. 1817(b)(2)(A).

[49] The risk factors referred to in factor (iv) include the probability that the Deposit Insurance Fund will incur a loss with respect to the institution,, the likely amount of any such loss, and the revenue needs of the Deposit Insurance Fund. *See* Section 7(b)(1)(C) of the FDI Act, 12 U.S.C. 1817(b)(1)(C).

[50] *See* Section 7(b)(2)(B) of the FDI Act, 12 U.S.C. 1817(b)(2)(B).

reserve ratio of 4 basis points to 1.23 percent as of March 31, 2022.

While assessment revenue was the primary contributor to growth in the DIF, the weighted average assessment rate for all IDIs was approximately 3.7 basis points for the assessment period ending March 31, 2022, compared to approximately 4.0 basis points when the Restoration Plan was established. In the first quarter of 2022, unrealized losses on available-for-sale securities in the DIF portfolio contributed to a relatively flat DIF balance, driven by rising yields as market participants reacted to expectations of increased inflation and tighter monetary policy. The DIF has experienced low losses from bank failures, with no banks failing in 2021 and thus far in 2022. As of March 31, 2022, the DIF balance totaled $123.0 billion, up $3.7 billion from one year earlier.

Table 11–Fund Balance,
Estimated Insured Deposits, and Reserve Ratio
[dollar amounts in billions]

	3Q 2021	4Q 2021	1Q 2022
Beginning Fund Balance	$120.5	$121.9	$123.1
Plus: Net Assessment Revenue	$1.7	$2.0	$1.9
Plus: Investment Income[a]	$0.1	($0.3)	($1.5)
Less: Loss Provisions	($0.1)	*	$0.1
Less: Operating Expenses	$0.5	$0.5	$0.4
Ending Fund Balance[b]	$121.9	$123.1	$123.0
Estimated Insured Deposits	$9,580.7	$9,733.5	$9,974.9
Q-O-Q Growth in Est. Insured Deposits	0.97%	1.59%	2.48%
Ending Reserve Ratio	1.27%	1.27%	1.23%

*Absolute value less than $50 million
[a] Includes unrealized gains/losses on available-for-sale securities.
[b] Components of fund balance changes may not sum to totals due to rounding.

In recognition that sustained elevated insured deposit balance trends, lower than anticipated weighted average assessment rates, and other factors have affected the ability of the reserve ratio to return to 1.35 percent before September 30, 2028, the FDIC is proposing to increase initial base deposit insurance assessment rates uniformly by 2 basis points. While subject to uncertainty, based on updated analysis of deposit balance trends, potential losses, and other factors that affect the reserve ratio, the FDIC projects that the increase in assessment rates would increase the likelihood that the reserve ratio returns to 1.35 percent before September 30, 2028.

The proposed assessment rate schedules would remain in effect unless and until the reserve ratio meets or exceeds 2 percent. The proposed increase is further intended to support growth in the DIF in progressing toward the 2 percent DRR and would bring the average assessment rate close to the moderate steady assessment rate of 5.29 basis points that would have been required to maintain a positive DIF balance from 1950 to 2010, identified as part of the long-term, comprehensive fund management plan in 2011.[51] The assessment rate schedules adopted as part of the long-term, comprehensive plan came into effect once the reserve ratio reached 1.15 percent in 2016. Since then, the industry weighted average assessment rate has been consistently and significantly below the moderate, steady assessment rate, averaging 3.8 basis points and ranging between 3.5 and 4.1 basis points through 2019.[52] Over the four most recent quarters, the weighted average assessment rate ranged between 3.6 and 3.7 basis points.

The proposed increase in assessment rates would bring the average assessment rate of 3.7 basis points as of March 31, 2022, close to the moderate, steady assessment rate that would have been required to maintain a positive DIF balance from 1950 to 2010. Sustaining this additional assessment revenue would support continued growth in the DIF, thereby reducing the likelihood that the FDIC would need to consider a potentially pro-cyclical assessment rate increase and increasing the likelihood of the DIF remaining positive through potential future periods of significant losses due to bank failures. In lieu of dividends, progressively lower assessment rate schedules will come into effect without further action by the Board when the reserve ratio at the end of the prior assessment

---

[51] *See* 75 FR 66273 and 76 FR 10675.

[52] Weighted average assessment rates do not reflect large bank surcharges, which were collected beginning December 30, 2016, and ending December 30, 2018, or small bank credits, which were applied beginning June 30, 2019, and ending June 30, 2020.

period reaches 2 percent and 2.5 percent, respectively.[53]

The proposed 2 basis point increase in assessment rates would increase the likelihood of reaching the statutory minimum reserve ratio by September 30, 2028, and accelerate the timeline for achieving the long-term goal of a 2 percent DRR without imposing excessive burden on the industry. The proposal would have a modest effect on banking industry income, resulting in an estimated annual reduction averaging less than 2 percent. The banking industry remained resilient moving into the second half of 2022 despite the extraordinary challenges of the pandemic, and is well-positioned to absorb such a rate increase.

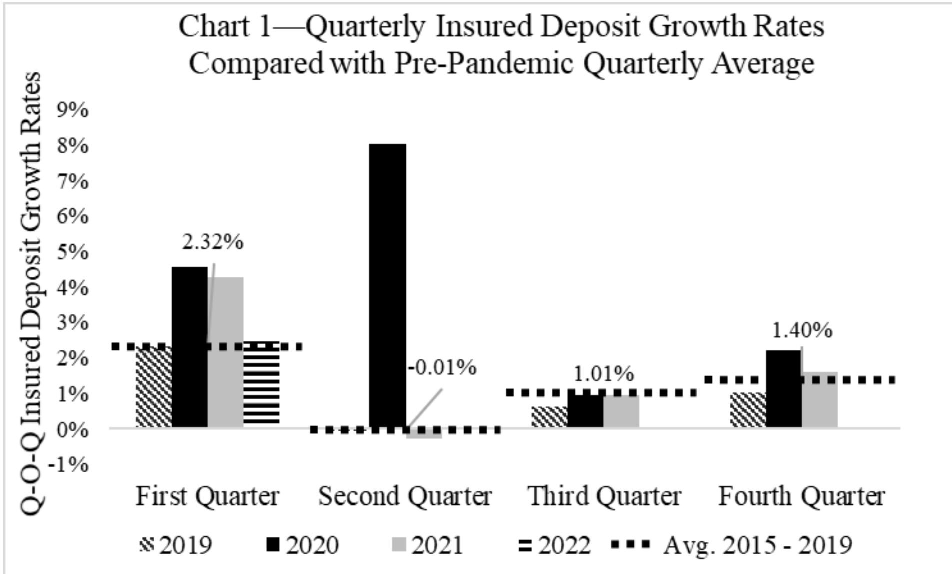
Overall, it is the FDIC's view that the recommended assessment rate increase appropriately balances several considerations, including the goal of reaching the statutory minimum reserve ratio reasonably promptly, the goal of strengthening the fund to reduce the risk of pro-cyclical assessments in the event of a future downturn or industry stress, and the projected effects on bank earnings at a time when the banking industry is better positioned to absorb an assessment rate increase.

Deposit Balance Trends

Over the past four quarters, insured deposits exhibited annual growth that was slightly above historical averages. As shown in Chart 1, fourth and first quarters have historically exhibited the highest insured deposit growth rates throughout the year. Insured deposits grew by 1.59 percent in the fourth quarter of 2021, slightly above the pre-pandemic quarterly average of 1.40 percent. In the first quarter of 2022, insured deposits grew by 2.48 percent, slightly above the quarterly average of 2.32 percent. This moderation in insured deposit growth, relative to the first half of 2020 and the first quarter of 2021, was attributable in part to a decline in support from fiscal stimulus programs and increases in consumer spending. Over the last year, insured deposits have

[53] *See* 12 CFR 327.10(c) and (d).

grown by 4.9 percent, which is slightly elevated compared to the pre-pandemic average of 4.5 percent.



While insured deposit growth has largely normalized, aggregate balances remain significantly elevated. In its previous semiannual update, the FDIC estimated that excess insured deposits that flowed into banks as the result of actions taken by monetary and fiscal authorities, and by individuals, businesses, and financial market participants in response to the Coronavirus Disease (COVID-19) pandemic totaled approximately $1.13 trillion. This estimate reflects the amount of insured deposits as of September 30, 2021, in excess of the amount that would have resulted if insured deposits had grown at the pre-pandemic average rate of 4.5 percent since December 31, 2019.[54] Rather than receding, as previously expected, these excess insured deposits have grown by about $200 billion through March 31, 2022.

The outlook for insured deposits remains uncertain and depends on several factors, including the outlook for consumer spending and incomes. Any unexpected economic weakness or concerns about slower than expected economic growth may cause

[54] By September 30, 2021, deposit balances would have fully reflected the more significant actions taken by monetary and fiscal authorities in response to the COVID-19 pandemic. September 2021 was also the first month that the personal savings rate declined to a level within the range reported during the year prior to the pandemic.

businesses and consumers to maintain caution in spending and keep deposit levels elevated. Continued supply chain pressures and prolonged higher inflation may cause consumer spending to rise further as consumers pay more for a similar amount of goods, or may cause consumers to delay or forgo some purchases. Similarly, unexpected financial market stress could prompt another round of investor risk aversion that could lead to an increase in insured deposits.

In contrast, tighter monetary policy and reduction of the Federal Reserve's balance sheet may inhibit growth of insured deposits in the banking system. Despite the recent increases in the short-term benchmark rate set by the Federal Reserve, most IDIs have little incentive to raise interest rates on deposit accounts and spur deposit growth in the near-term, given excess liquidity. If competition for deposits remains subdued and rates paid on deposit accounts remain low, depositors may shift balances away from deposit accounts and into higher-yielding alternatives, including money-market funds.

A year has passed since the latest quarter of extraordinary growth in insured deposits prompted by the last round of fiscal stimulus, but those deposits have yet to exhibit any indication of receding. The FDIC will continue to closely monitor depositor behavior and the effects on insured deposits.

Case Resolution Expenses (Insurance Fund Losses)

Losses from past and future bank failures affect the reserve ratio by lowering the fund balance. In recent years, the DIF has experienced low losses from IDI failures. On average, four IDIs per year failed between 2016 and 2021, at an average annual cost to the fund of about $208 million.[55] No banks have failed thus far in 2022, marking 19 consecutive months without a bank failure and the seventh year in a row with few or no failures. Based on currently available information about banks expected to fail in the near

[55] FDIC, Annual Report 2021, Assets and Deposits of Failed or Assisted Insured Institutions and Losses to the Deposit Insurance Fund, 1934 – 2021, page 190, available at *https://www.fdic.gov/about/financial-reports/reports/2021annualreport/2021-arfinal.pdf.*

term; analyses of longer-term prospects for troubled banks; and trends in CAMELS ratings, failure rates, and loss rates; the FDIC projects that failures for the five-year period from 2022 to 2026 would cost the fund approximately $1.8 billion.

The total number of institutions on the FDIC's Problem Bank List was 40 at the end of the first quarter of 2022, the lowest level since publication of the FDIC's Quarterly Banking Profile began in 1984.[56] The number of troubled banks is currently expected to remain at low levels.

Future losses to the DIF remain uncertain, although some sources of uncertainty have changed since the Restoration Plan was adopted in September of 2020. The uncertainties include, among others, the variable trends in COVID-19 infections, rising inflation and interest rates, the possibility of recession, supply chain pressures, geopolitical tensions, and evolving consumer and depositor behavior, any of which could have longer-term effects on the condition and performance of the banking industry. However, the banking industry has remained a source of strength for the economy, in part, because its stronger capital position has better positioned banks to withstand losses compared to 2008.

Operating Expenses and Investment Income

Operating expenses remain steady, while low investment returns coupled with elevated unrealized losses on securities held by the DIF have limited growth in the fund balance, particularly in the first quarter of 2022.

Operating expenses partially offset increases in the DIF balance. Operating expenses have remained steady, ranging between $450 and $475 million per quarter since the Restoration Plan was first adopted in September 2020, totaling $453 million as of March 31, 2022.

---

[56] "Problem" institutions are institutions with a CAMELS composite rating of "4" or "5" due to financial, operational, or managerial weaknesses that threaten their continued financial viability.

Growth in the fund balance has been limited by a prolonged period of low investment returns on securities held by the DIF. Recently, as a result of the rising interest rate environment and market expectations leading up to such rate increases, the DIF has also experienced elevated unrealized losses on securities. Unrealized losses on available-for-sale securities in the DIF portfolio contributed to a relatively flat DIF balance in the first quarter of 2022. Unrealized losses were primarily due to rising yields as market participants reacted to expectations of increased inflation and tighter monetary policy. Future market movements may temporarily increase unrealized losses in the near term, to the extent that market participants have not already priced in these actions. However, the FDIC expects that these unrealized losses will be outpaced by higher investment returns over the longer-term as future cash proceeds are reinvested at higher rates.

Projections for Fund Balance and Reserve Ratio

In its consideration of proposed rates, the FDIC sought to increase the likelihood that the reserve ratio would reach the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028, and to support growth in the DIF in progressing toward the long-term goal of a 2 percent DRR. With these objectives in mind, the FDIC updated its analysis and projections for the fund balance and reserve ratio to estimate how changes in insured deposit growth and assessment rates affect when the reserve ratio would reach the statutory minimum of 1.35 percent and the DRR of 2 percent.

Based on this analysis, the FDIC projects that, absent an increase in assessment rates, the reserve ratio is at risk of not reaching the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028. In estimating how soon the reserve ratio would reach 1.35 percent, the FDIC developed two scenarios that assume different levels of insured deposit growth and average assessment rates, both of which the FDIC views as reasonable based on current and historical data. For insured deposit growth, the FDIC assumed annual growth rates of 4.0 percent and 3.5 percent, respectively. These insured deposit growth rates represent a range of excess insured deposits resulting from the pandemic being retained. The assumption of a 4.0 percent annual growth rate reflects retention of all of the estimated $1.13 trillion of excess deposits in insured accounts, with this amount not contributing to further growth, while the remaining balance of insured deposits continues to grow at the pre-pandemic average annual rate of 4.5 percent.

Alternatively, a 3.5 percent annual growth rate assumption reflects banks retaining about 60 percent of the estimated excess insured deposits resulting from the pandemic, with this amount not contributing to further growth, while the remaining balance of insured deposits grows at the pre-pandemic average annual rate of 4.5 percent.

The two scenarios also apply different assumptions for average annual assessment rates. The weighted average assessment rate for all banks during 2019, prior to the pandemic, was about 3.5 basis points and rose to 4.0 basis points, on average, during 2020. The weighted average assessment rate for all IDIs was approximately 3.7 basis points for the assessment period ending March 31, 2022. For the scenario in which all excess insured deposits are retained, the FDIC assumed a lower assessment rate of 3.5 basis points, and for the scenario in which some excess insured deposits recede, the FDIC assumed an assessment rate of 4.0 basis points.

In developing the proposal, the FDIC projected the date that the reserve ratio would likely reach the statutory minimum of 1.35 percent in each scenario, shown in Table 12 below.[57] Under Scenario A, which assumes annual insured deposit growth of 4.0 percent and an average annual assessment rate of 3.5 basis points, the FDIC projects that the reserve ratio would reach 1.35 percent in the third quarter of 2034, after the

[57] For simplicity, the analysis shown in Table 12 assumes that: (1) the assessment base grows 4.5 percent, annually; (2) interest income on the deposit insurance fund balance is zero; (3) operating expenses grow at 1 percent per year; and (4) failures for the five-year period from 2022 to 2026 would cost approximately $1.8 billion.

statutory deadline of September 30, 2028.

**Table 12 – Scenario Analysis:
Expected Time to Reach a 1.35 Percent Reserve Ratio**

	Annual Insured Deposit Growth Rate [Percent]	Average Annual Assessment Rate [Basis Points]	Date the Reserve Ratio Reaches 1.35 Percent	As of 1Q 2023, Average Annual Assessment Rate Increases by…	
				1 BPS	2 BPS
Scenario A	4.0	3.5	3Q 2034	3Q 2026	4Q 2024
Scenario B	3.5	4.0	2Q 2027	2Q 2025	2Q 2024

In Scenario B, which assumed annual insured deposit growth of 3.5 percent and an average annual assessment rate of 4.0 basis points, the FDIC projects that the reserve ratio would reach 1.35 percent in the second quarter of 2027, five years from the second quarter of 2022 and only five quarters before the statutory deadline. Even under these relatively favorable conditions, which assume lower insured deposit growth and a higher average assessment rate than experienced over the last year, the reserve ratio reaches the statutory minimum of 1.35 percent close to the statutory deadline. While the FDIC projects that the reserve ratio would reach the statutory minimum before the deadline in this Scenario, any number of uncertain factors—including unexpected losses, accelerated insured deposit growth, or lower weighted average assessment rates due to improving risk profiles of institutions—could materialize between now and the second quarter of 2027, and easily prevent the reserve ratio from reaching the minimum by the statutory deadline.

Both Scenarios apply assumptions for insured deposit growth and average assessment rates that the FDIC views as reasonable based on current and historical data, and that do not widely differ from each other in magnitude. These relatively minor changes in the underlying assumptions result in considerably different outcomes, as the reserve ratio is projected to reach the statutory minimum of 1.35 percent in 2034 in Scenario A, compared to 7 years earlier in Scenario B. The disparity between outcomes under these Scenarios demonstrates the sensitivity of the projections to slight variations in any key variable.

Given these uncertainties, the FDIC projected the DIF balance and associated reserve ratio under each Scenario, applying an increase in average assessment rates beginning in the first assessment period of 2023. Under Scenario A, a 1 basis point increase in the average assessment rate is projected to result in the reserve ratio reaching the minimum in the third quarter of 2026, and a 2 basis point increase is projected to result in the reserve ratio reaching the minimum in the fourth quarter of 2024. Under Scenario B, a 1 basis point increase in the average assessment rate is projected to result in the reserve ratio reaching the minimum in the second quarter of 2025, and a 2 basis point increase is projected to result in the reserve ratio reaching the minimum in the second quarter of 2024.

While the FDIC projects that the reserve ratio would reach the minimum before the statutory deadline under Scenario B with no increase in assessment rates, or under Scenario A with a 1 basis point increase in the average assessment rate, these outcomes are still over 4 years away and carry higher risk that the FDIC would have to increase assessment rates in the face of a future downturn or industry stress.

In contrast, the proposed increase of 2 basis points would improve the likelihood that the reserve ratio will reach the minimum ahead of the statutory deadline, building in a buffer in the event of uncertainties as described above that could stall or counter growth in the reserve ratio. Under both scenarios described above, an increase in assessment rates of 2 basis points is projected to result in the reserve ratio reaching the statutory minimum reserve ratio of 1.35 percent approximately two years from now.

Reaching the minimum reserve ratio of 1.35 percent ahead of the statutory deadline would mean that the FDIC would exit its Restoration Plan. If the reserve ratio subsequently declined below the statutory minimum, the FDIC would establish a new restoration plan and would have an additional eight years to restore the reserve ratio.

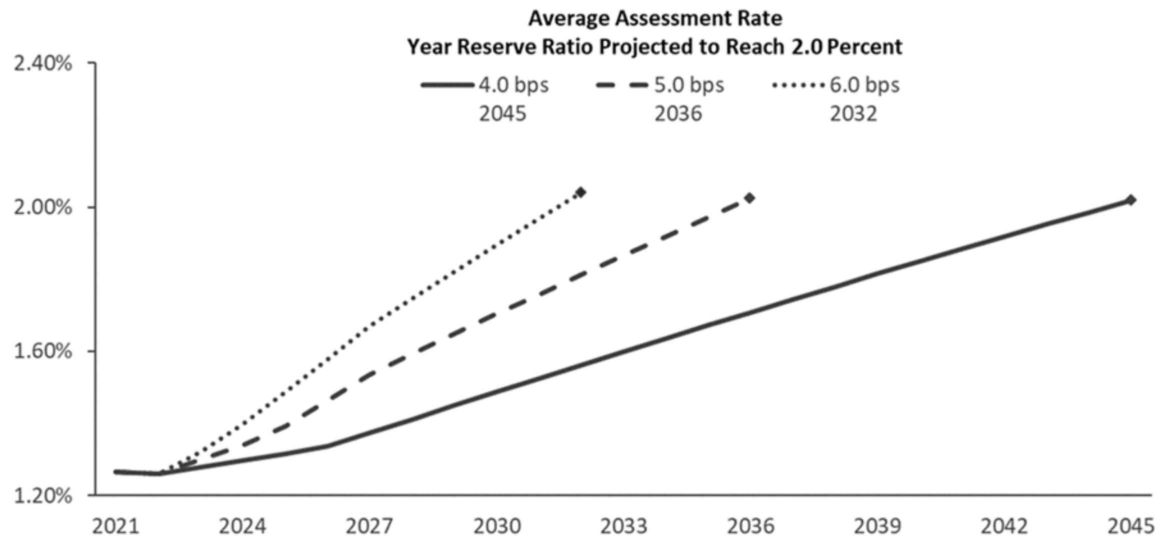
The FDIC also analyzed the effects of an increase in assessment rates in supporting growth in the DIF in progressing toward the 2 percent DRR. For this analysis, the FDIC assumed a near-term annual insured deposit growth rate of 3.5 percent and a weighted average assessment rate of 4.0 basis points.[58] These assumptions reflect the ranges of insured deposit growth and assessment rates used in Scenario B, described above, and result in the shortest projected timeline to reach a 2 percent reserve ratio. As illustrated in Chart 2, even under these relatively favorable conditions, absent an increase in assessment rates, the projected reserve ratio would not reach 2 percent until 2045, over twenty years from now.[59] When the FDIC proposed the long-term, comprehensive fund management plan in 2010, it estimated that the reserve ratio would reach 2 percent in 2027.[60]

Using the same assumptions, an increase in assessment rates would significantly accelerate the timeline for achieving a 2 percent DRR. An increase in assessment rates of 1 basis point resulted in the projected reserve ratio reaching 2 percent in 2036, nine years faster. Applying a 2 basis point increase in assessment rates would accelerate the timeline by an additional four years, to 2032.

---

[58] After September 30, 2028, the deadline to restore the reserve ratio to the 1.35 percent minimum, insured deposits are assumed to grow at the pre-pandemic annual average of 4.5 percent.
[59] The analysis shown in Chart 2 is based on the assumptions used in Scenario B through the projected quarter that the reserve ratio meets or exceeds 1.35 percent. Afterward, the analysis assumes: (1) net income on investments by the fund based on market-implied forward rates; (2) the assessment base grows 4.5 percent, annually; (3) operating expenses grow at 1 percent per year; and (4) failures for the five-year period from 2022 to 2026 cost approximately $1.8 billion, with a low level of losses each year thereafter. The uniform increase in assessment rates of 1 or 2 basis points from the current rate schedule is assumed to take effect on January 1, 2023.
[60] *See* 75 FR 66281.

Chart 2 – Expected Time to Reach a 2 Percent Reserve Ratio



The proposed 2 basis point increase in assessment rates would bring the average assessment rate of 3.7 basis points, as of March 31, 2022, close to the moderate steady assessment rate that would have been required to maintain a positive DIF balance from 1950 to 2010, and identified as part of the long-term, comprehensive fund management plan in 2011.[61] Upon achieving the 2 percent DRR, progressively lower assessment rate schedules would take effect. The proposed 2 basis point increase would accelerate the timeline for achieving the 2 percent DRR significantly, would reduce the likelihood that the FDIC would need to consider a potentially pro-cyclical assessment rate increase, and would increase the likelihood of the DIF remaining positive through potential future periods of significant losses due to bank failures, consistent with the FDIC's long-term fund management plan.

Capital and Earnings Analysis and Expected Effects

This analysis estimates the effect of the changes in deposit insurance assessments resulting from the proposed uniform increase in initial base assessment rates of 2 basis points. For this analysis, data as of March 31, 2022, are used to calculate each bank's

[61] *See* 75 FR 66273 and 76 FR 10675.

assessment base and risk-based assessment rate, absent the proposed increase. The base and rate are assumed to remain constant throughout the one-year projection period.[62]

The analysis assumes that pre-tax income for the four quarters beginning on the proposed effective date of the rate increase, January 1, 2023, is equal to income reported from April 1, 2021, through March 31, 2022, adjusted for mergers. The analysis also assumes that the effects of changes in assessments are not transferred to customers in the form of changes in borrowing rates, deposit rates, or service fees. Since deposit insurance assessments are a tax-deductible operating expense, increases in the assessment expense can lower taxable income. Therefore, the analysis considers the effective after-tax cost of assessments in calculating the effect on capital.[63]

The effect of the change in assessments on an institution's income is measured by the change in deposit insurance assessments as a percent of income before assessments and taxes (hereafter referred to as "income"). This income measure is used in order to eliminate the potentially transitory effects of taxes on profitability. The FDIC analyzed the impact of assessment changes on institutions that were profitable in the period covering the 12 months before March 31, 2022.

An institution's earnings retention and dividend policies also influence the extent to which assessments affect equity levels. If an institution maintains the same dollar amount of dividends when it pays a higher deposit insurance assessment under the final rule, equity (retained earnings) will be less by the full amount of the after-tax cost of the increase in the assessment. This analysis instead assumes that an institution will maintain its dividend rate (that is, dividends as a fraction of net income) unchanged from the weighted average rate reported over the four quarters ending March 31, 2022. In the

[62] All income statement items used in this analysis were adjusted for the effect of mergers. Institutions for which four quarters of non-zero earnings data were unavailable, including insured branches of foreign banks, were excluded from this analysis.
[63] The analysis does not incorporate any tax effects from an operating loss carry forward or carry back.

event that the ratio of equity to assets falls below 4 percent, however, this assumption is modified such that an institution retains the amount necessary to reach a 4 percent minimum and distributes any remaining funds according to the dividend payout rate.[64]

The FDIC estimates that a uniform increase in initial base assessment rates of 2 basis points would contribute approximately $4.5 billion in assessment revenue in 2023.[65] Given the assumptions in the analysis, for the industry as a whole, the FDIC estimates that, on average, a uniform increase in assessment rates of 2 basis points would decrease Tier 1 capital by an estimated 0.1 percent. The proposed increase is estimated to cause no banks whose ratio of equity to assets would have equaled or exceeded 4 percent under the current assessment rate schedule to fall below that percentage (becoming undercapitalized), and no banks whose ratio of equity to assets would have exceeded 2 percent under the current rate schedule to fall below that percentage, becoming critically undercapitalized.

The banking industry reported an increase in full year 2021 income primarily due to negative provision expense in all four quarters of the year. Fourth quarter net income improved from a year ago due to higher net interest income and negative provisions while first quarter 2022 net income declined due to higher and positive provisions. While provisions are positive and caused the decline in quarterly net income, the current level remains low compared to pre-pandemic levels. The net interest margin for the industry remained stable from the prior quarter and from the year-ago quarter, as growth in earning assets has been equal to the growth in net interest income. The average return-on-

[64] The analysis uses 4 percent as the threshold because IDIs generally need to maintain a leverage ratio of 4.0 percent or greater to be considered “adequately capitalized” under Prompt Corrective Action Standards, in addition to the following requirements: (i) total risk-based capital ratio of 8.0 percent or greater; and (ii) Tier 1 risk-based capital ratio of 6.0 percent or greater; and (iii) common equity tier 1 capital ratio of 4.5 percent or greater; and (iv) does not meet the definition of “well capitalized.” (iv) Beginning January 1, 2018, an advanced approaches or Category III FDIC-supervised institution will be deemed to be “adequately capitalized” if it satisfies the above criteria and has a supplementary leverage ratio of 3.0 percent or greater, as calculated in accordance with § 324.10. *See* 12 CFR 324.403. For purposes of this analysis, equity to assets is used as the measure of capital adequacy.

[65] Estimates and projections are based on the assumptions used in Scenario B.

assets (ROA) decreased from a decade-high of 1.38 percent in first quarter 2021 to 1.00 percent in first quarter 2022. The banking industry remained resilient moving into the second half of 2022 despite the extraordinary challenges of the pandemic, and is well-positioned to absorb the proposed rate increase.

Given the assumptions in the analysis, for the industry as a whole, the FDIC estimates that the annual increase in assessments would average 1.0 percent of income, which includes an average of 0.9 percent for small banks and an average of 1.0 percent for large and highly complex institutions.[66]

Table 13 shows that approximately 95 percent of profitable institutions are projected to have an increase in assessments of less than 5 percent of income. Another 5 percent of profitable institutions are projected to have an increase in assessments equal to or exceeding 5 percent of income.

Table 13 – Estimated Annual Effect of the Proposed Rule on Income for All Profitable Institutions[1]

Change in Assessments as percent of income	Number of Institutions	Percent of Institutions	Assets of Institutions ($ billions)	Percent of Assets
Over 30%	8	0%	1	<1%
20% to 30%	11	<1%	1	<1%
10% to 20%	48	1%	7	<1%
5% to 10%	145	3%	28	<1%
Less than 5%	4,400	95%	23,724	100%
No Change	3	<1%	<1	<1%
Total	4,615	100%	23,762	100%

[1] Income is defined as annual income before assessments and taxes. Annual income is assumed to equal income from April 1, 2021, through March 31, 2022, adjusted for mergers. Profitable institutions are defined as those having positive merger-adjusted income for the 12 months ending March 31, 2022. Excludes 9 insured branches of foreign banks and 7 institutions reporting fewer than 4 quarters of reported earnings. Some columns do not add to total due to rounding.

Among profitable small institutions, 95 percent are projected to have an increase in assessments of less than 5 percent of income, as shown in Table 14. The remaining 5

[66] Earnings or income are annual income before assessments and taxes. Annual income is assumed to equal income from April 1, 2021, through March 31, 2022.

percent of profitable small institutions are projected to have an increase in assessments equal to or exceeding 5 percent of income. As shown in Table 15, 100 percent of profitable large and highly complex institutions are projected to have an increase in assessments below 5 percent of income.

Table 14 – Estimated Annual Effect of the Proposed Rule on Income for Profitable Small Institutions[1]

Change in Assessments as percent of income	Number of Institutions	Percent of Institutions	Assets of Institutions ($ billions)	Percent of Assets
Over 30%	8	<1%	1	<1%
20% to 30%	11	<1%	1	<1%
10% to 20%	48	1%	7	<1%
5% to 10%	145	3%	28	1%
Less than 5%	4,258	95%	3,466	99%
No Change	3	<1%	<1	<1%
Total	4,473	100%	3,503	100%

[1] Income is defined as annual income before assessments and taxes. Annual income is assumed to equal income from April 1, 2021, through March 31, 2022, adjusted for mergers. Profitable institutions are defined as those having positive merger-adjusted income for the 12 months ending March 31, 2022. Some columns do not add to total due to rounding.

Table 15 – Estimated Annual Effect of the Proposed Rule on Income for Profitable Large and Highly Complex Institutions[1]

Change in Assessments as percent of income	Number of Institutions	Percent of Institutions	Assets of Institutions ($ billions)	Percent of Assets
Over 30%	0	0%	0	0%
20% to 30%	0	0%	0	0%
10% to 20%	0	0%	0	0%
5% to 10%	0	0%	0	0%
Less than 5%	142	100%	20,258	100%
No Change	0	0%	0	0%
Total	142	100%	20,258	100%

[1] Income is defined as annual income before assessments and taxes. Annual income is assumed to equal income from April 1, 2021, through March 31, 2022, adjusted for mergers. Profitable institutions are defined as those having positive merger-adjusted income for the 12 months ending March 31, 2022. Some columns do not add to total due to rounding.

Strengthening the DIF

As discussed above, the proposed rule is unlikely to have large material effects on any individual institution. However, the resulting increase in assessment revenue, combined across all institutions, would grow the DIF by over $4 billion a year. This growth would strengthen the DIF's ability to withstand potential future periods of significant losses due to bank failures and reduce the likelihood that the FDIC would need to increase assessment rates during a future banking crisis. Accelerating the time in which the reserve ratio would reach the statutory minimum of 1.35 percent and the DRR of 2 percent would allow the banking industry to remain a source of strength for the economy during a potential future downturn and would continue to ensure public confidence in federal deposit insurance.

E. Alternatives Considered

The FDIC considered the reasonable and possible alternatives described below. On balance, the FDIC views the current proposal as the most appropriate and most straightforward manner in which to achieve the objectives of the Amended Restoration Plan and the long-term fund management plan.

Alternative 1: Maintain Current Assessment Rate Schedule

The first alternative would be to maintain the current schedule of assessment rates. As described above, the FDIC projected that the reserve ratio would reach the statutory minimum of 1.35 percent in the third quarter of 2034, after the statutory deadline under Scenario A, which assumes annual insured deposit growth of 4.0 percent and an average annual assessment rate of 3.5 basis points. Under Scenario B, which assumes insured deposit growth of 3.5 percent and an average assessment rate of 4.0 basis points, the FDIC projected that the reserve ratio would reach the statutory minimum of 1.35 percent in the second quarter of 2027, only five quarters before the statutory deadline of September 30, 2028.

As described above, the FDIC rejected maintaining the current schedule of assessment rates. Absent an increase in assessment rates, under Scenario A growth in the DIF would not be sufficient for the reserve ratio to reach the statutory minimum of 1.35

percent ahead of the required deadline. While the reserve ratio would reach the statutory minimum ahead of the required deadline under Scenario B, growth in the fund resulting from current assessment rates could be offset if unexpected losses materialize, insured deposit growth accelerates, or risk profiles of institutions continue to improve resulting in lower assessment rates.

Additionally, relative to the other alternatives and the current proposal, maintaining the current schedule of assessment rates would not result in any acceleration of growth in the DIF in progressing toward the FDIC's long-term goal of a 2 percent DRR. Absent an increase in assessment rates and assuming annual insured deposit growth of 3.5 percent and a weighted average assessment rate of 4.0 basis points, the FDIC projected that the reserve ratio would achieve the 2 percent DRR in 2045, thirteen years later than if the FDIC were to apply an increase in assessment rates of 2 basis points beginning in 2023.

Alternative 2: Increase in Assessment Rates of 1 Basis Point

A second alternative would be to increase initial base assessment rates uniformly by 1 basis point. As described above, the FDIC projected that a 1 basis point increase in the average assessment rate would result in the reserve ratio reaching the minimum in the third quarter of 2026 under Scenario A and in the second quarter of 2025 under Scenario B.

However, also as described above, the FDIC rejected this alternative in favor of a 2 basis point increase. Reaching the minimum reserve ratio in 2026, as projected under Scenario A, would be very close to the statutory deadline and could result in the FDIC having to consider higher assessment rates in the face of a future downturn or industry stress. While a 1 basis point increase under Scenario B is projected to result in the reserve ratio reaching 1.35 percent in 2025, the increase in associated assessment revenue would generate a smaller buffer to absorb unexpected losses, accelerated insured deposit growth, or lower average assessment rates that could materialize over this period.

Additionally, the FDIC projected that a 1 basis point increase in assessment rates would result in the reserve ratio achieving the 2 percent DRR in approximately 2036, about 4 years later than if the FDIC were to apply an increase in assessment rates of 2 basis points beginning in 2023.

Alternative 3: One-Time Special Assessment of 4.5 Basis Points

A third alternative would be to impose a one-time special assessment of 4.5 basis points, applicable to the assessment base of all IDIs. Utilizing data as of March 31, 2022, and assuming an effective date of January 1, 2023, the FDIC estimated that a one-time special assessment of 4.5 basis points would contribute approximately $9.8 billion in assessment revenue and the reserve ratio would reach 1.35 percent the quarter following the effective date (i.e., the second assessment period of 2023).[67] Accordingly, the FDIC estimates that, on average, a one-time special assessment of 4.5 basis points would decrease Tier 1 capital by an estimated 0.4 percent and reduce the annual earnings of IDIs by approximately 2.3 percent, in aggregate.[68]

While a one-time special assessment of 4.5 basis points is projected to increase the DIF reserve ratio to 1.35 percent the most quickly and precisely, and would significantly mitigate the potential that the FDIC would need to consider a potentially pro-cyclical increase in assessment rates, it is estimated to result in a quarterly assessment expense that is more than 8 times greater than the proposal. Additionally, while the reserve ratio is projected to be restored to 1.35 percent immediately under this alternative, the risk would remain that it could fall back below the statutory minimum shortly

---

[67] Estimates and projections related to the one-time special assessment assume that: (1) insured deposit growth is 4 percent annually; (2) the average assessment rate before any rate increase is 3.5 basis points; (3) losses to the DIF from bank failures total $1.8 billion from 2022 to 2026; (4) the assessment base grows 4.5 percent, annually; (5) interest income on the deposit insurance fund balance is zero; and (6) operating expenses grow at 1 percent per year.

[68] Earnings or income are annual income before assessments, taxes, and extraordinary items. Annual income is assumed to equal income from April 1, 2021 through March 31, 2022.

thereafter if a sufficient cushion is not built in. This would result in the establishment of a new restoration plan. Further, a one-time special assessment would not meaningfully accelerate the timeline for achieving the 2 percent DRR.

The FDIC requests comments on the proposal and the alternative approaches considered. On balance, in the FDIC's view, the proposed increase in assessment rates appropriately balances several considerations, including the goal of reaching the statutory minimum reserve ratio reasonably promptly, accelerating the timeline for achieving a 2 percent DRR, strengthening the fund to reduce the risk that the FDIC would need to consider a potentially pro-cyclical assessment increase in the event of a future downturn or industry stress, and the projected effects on bank earnings at a time when the banking industry is better positioned to absorb an assessment rate increase.

F. Comment Period, Effective Date, and Application Date

The FDIC is issuing this proposal with an opportunity for public comment through August 20, 2022. Following the comment period, the FDIC expects to issue a final rule with an effective date of January 1, 2023, and applicable to the first quarterly assessment period of 2023 (i.e., January 1-March 31, 2023).

IV. Request for Comment

The FDIC is requesting comment on all aspects of the notice of proposed rulemaking, in addition to the specific requests below.

Question 1: The FDIC invites comment on its proposal to increase deposit insurance assessment rates uniformly by 2 basis points, beginning with the first quarterly assessment period of 2023. How does the approach in the proposed rule support or not support the objectives of the Amended Restoration Plan and the FDIC's long-term fund management plan?

Question 2: The FDIC invites comment on the reasonable and possible alternatives described in this proposed rule. What are other reasonable and possible *alternatives that the FDIC should consider?*

V. Administrative Law Matters

A. Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) generally requires an agency, in connection with a proposed rule, to prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of a proposed rule on small entities.[69] However, an initial regulatory flexibility analysis is not required if the agency certifies that the proposed rule will not have a significant economic impact on a substantial number of small entities. The Small Business Administration (SBA) has defined "small entities" to include banking organizations with total assets of less than or equal to $750 million.[70] Certain types of rules, such as rules of particular applicability relating to rates, corporate or financial structures, or practices relating to such rates or structures, are expressly excluded from the definition of "rule" for purposes of the RFA.[71] Because the proposed rule relates directly to the rates imposed on IDIs for deposit insurance, the proposed rule is not subject to the RFA. Nonetheless, the FDIC is voluntarily presenting information in this RFA section.

The proposed rule is expected to affect all FDIC-insured depository institutions. According to recent Call Report data, there are currently 4,848 IDIs holding approximately $24 trillion in assets.[72] Of these, approximately 3,478 IDIs would be considered small entities for the purposes of RFA.[73] These small entities hold

---

[69] 5 U.S.C. 601 *et seq.*

[70] The SBA defines a small banking organization as having $750 million or less in assets, where an organization's assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year. *See* 13 CFR 121.201 (as amended by 87 FR 18627, effective May 2, 2022). In its determination, the SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates. *See* 13 CFR 121.103. Following these regulations, the FDIC uses a banking organization's affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the banking organization is "small" for the purposes of RFA.

[71] 5 U.S.C. 601.

[72] Based on Call Report data as of December 31, 2021, the most recent period for which small entities can be identified.

[73] *Id.*

approximately $905 billion in assets.

The proposed rule would increase initial base assessment rates for these small entities by 2 basis points. In aggregate, the total annual amount paid in assessments by small entities would increase by approximately $160 million, from $320 million to $480 million.[74]

At the individual bank level, few institutions would be significantly affected by the proposed rule. Fewer than 330 small entities would experience annual assessment increases greater than $100,000, and none would experience annual assessment increases greater than $150,000. When compared to the banks' expenses, the annual assessment increases are significant for only a handful of small entities: only five small entities would experience annual assessment increases greater than 2.5 percent of their noninterest expenses, and only three would experience annual assessment increases greater than 5 percent of what they paid in employee salaries and benefits.[75]

The FDIC invites comments on all aspects of the supporting information provided in this RFA section. In particular, would this proposed rule have any significant effects on small entities that the FDIC has not identified?

B. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (PRA) states that no agency may conduct or sponsor, nor is the respondent required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number.[76] The FDIC's OMB control numbers for its assessment regulations are 3064-0057, 3064-0151, and 3064-0179. The proposed rule does not revise any of these existing assessment information collections pursuant to the PRA and consequently, no submissions in

---

[74] *Id.*

[75] *Id.* For purposes of the RFA, the FDIC generally considers a significant effect to be a quantified effect in excess of 5 percent of total annual salaries and benefits per institution, or 2.5 percent of total noninterest expenses.

[76] 4 U.S.C. 3501-3521.

connection with these OMB control numbers will be made to the OMB for review.

C. Riegle Community Development and Regulatory Improvement Act

Section 302 of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA) requires that the Federal banking agencies, including the FDIC, in determining the effective date and administrative compliance requirements of new regulations that impose additional reporting, disclosure, or other requirements on IDIs, consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations.[77] Subject to certain exceptions, new regulations and amendments to regulations prescribed by a Federal banking agency which impose additional reporting, disclosures, or other new requirements on insured depository institutions shall take effect on the first day of a calendar quarter which begins on or after the date on which the regulations are published in final form.[78]

The proposed rule would not impose additional reporting, disclosure, or other new requirements on insured depository institutions, including small depository institutions, or on the customers of depository institutions. Accordingly, section 302 of RCDRIA does not apply. Nevertheless, the requirements of RCDRIA have been considered in setting the proposed effective date. The FDIC invites comments that will further inform its consideration of RCDRIA.

D. Plain Language

Section 722 of the Gramm-Leach-Bliley Act[79] requires the Federal banking agencies to use plain language in all proposed and final rulemakings published in the **Federal Register** after January 1, 2000. The FDIC invites your comments on how to

[77] 12 U.S.C. 4802(a).
[78] 12 U.S.C. 4802(b).
[79] Pub. L. 106-102, section 722, 113 Stat. 1338, 1471 (1999), 12 U.S.C. 4809.

make this proposed rule easier to understand. For example:

- Has the FDIC organized the material to suit your needs? If not, how could the material be better organized?
- Are the requirements in the proposed regulation clearly stated? If not, how could the regulation be stated more clearly?
- Does the proposed regulation contain language or jargon that is unclear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand?

VI. Revisions to Code of Federal Regulations

List of Subjects in 12 CFR Part 327

Bank deposit insurance, Banks, banking, Savings associations.

For the reasons stated in the preamble, the Federal Deposit Insurance Corporation proposes to amend 12 CFR part 327 as follows:

PART 327—ASSESSMENTS

1. The authority for 12 CFR part 327 continues to read as follows:

Authority: 12 U.S.C. 1813, 1815, 1817-19, 1821.

2. Amend § 327.4 by revising paragraphs (a) and (c) to read as follows:

§ 327.4 Assessment rates.

(a) *Assessment risk assignment.* For the purpose of determining the annual assessment rate for insured depository institutions under § 327.16 , each insured depository institution will be provided an assessment risk assignment. Notice of an institution's current assessment risk assignment will be provided to the institution with each quarterly certified statement invoice. Adjusted assessment risk assignments for prior periods may also be provided by the Corporation. Notice of the procedures applicable to reviews will be included with the notice of assessment risk assignment provided pursuant to this paragraph (a).

* * * * *

(c) *Requests for review.* An institution that believes any assessment risk assignment provided by the Corporation pursuant to paragraph (a) of this section is incorrect and seeks to change it must submit a written request for review of that risk assignment. An institution cannot request review through this process of the CAMELS ratings assigned by its primary federal regulator or challenge the appropriateness of any such rating; each federal regulator has established procedures for that purpose. An institution may also request review of a determination by the FDIC to assess the institution as a large, highly complex, or a small institution (§ 327.16(f)(3)) or a determination by the FDIC that the institution is a new institution (§ 327.16(g)(5)). Any request for review must be submitted within 90 days from the date the assessment risk assignment being challenged pursuant to paragraph (a) of this section appears on the institution's quarterly certified statement invoice. The request shall be submitted to the Corporation's Director of the Division of Insurance and Research in Washington, DC, and shall include documentation sufficient to support the change sought by the institution. If additional information is requested by the Corporation, such information shall be provided by the institution within 21 days of the date of the request for additional information. Any institution submitting a timely request for review will receive written notice from the Corporation regarding the outcome of its request. Upon completion of a review, the Director of the Division of Insurance and Research (or designee) or the Director of the Division of Supervision and Consumer Protection (or designee) or any successor divisions, as appropriate, shall promptly notify the institution in writing of his or her determination of whether a change is warranted. If the institution requesting review disagrees with that determination, it may appeal to the FDIC's Assessment Appeals

Committee. Notice of the procedures applicable to appeals will be included with the written determination.

* * * * *

3. Amend § 327.8 by revising paragraphs (e)(2), (f), (k)(1), and (l) through (p) to read as follows:

§ 327.8 Definitions.

* * * * *

(e) * * *

(2) Except as provided in paragraph (e)(3) of this section and § 327.17(e), if, after December 31, 2006, an institution classified as large under paragraph (f) of this section (other than an institution classified as large for purposes of § 327.16(f)) reports assets of less than $10 billion in its quarterly reports of condition for four consecutive quarters, excluding assets as described in § 327.17(e), the FDIC will reclassify the institution as small beginning the following quarter.

* * * * *

(f) *Large institution.* An institution classified as large for purposes of § 327.16(f) or an insured depository institution with assets of $10 billion or more, excluding assets as described in § 327.17(e), as of December 31, 2006 (other than an insured branch of a foreign bank or a highly complex institution) shall be classified as a large institution. If, after December 31, 2006, an institution classified as small under paragraph (e) of this section reports assets of $10 billion or more in its quarterly reports of condition for four consecutive quarters, excluding assets as described in § 327.17(e), the FDIC will reclassify the institution as large beginning the following quarter.

* * * * *

(k) * * *

(1) *Merger or consolidation involving new and established institution(s).* Subject

to paragraphs (k)(2) through (5) of this section and § 327.16(g)(3) and (4), when an established institution merges into or consolidates with a new institution, the resulting institution is a new institution unless:

* * * * *

(l) *Risk assignment.* Under § 327.16, for all new small institutions and insured branches of foreign banks, risk assignment includes assignment to Risk Category I, II, III, or IV, and for insured branches of foreign banks within Risk Category I, assignment to an assessment rate or rates. For all established small institutions, and all large institutions and all highly complex institutions, risk assignment includes assignment to an assessment rate.

(m) *Unsecured debt.* For purposes of the unsecured debt adjustment as set forth in § 327.16(e)(1) and the depository institution debt adjustment as set forth in § 327.16(e)(2), unsecured debt shall include senior unsecured liabilities and subordinated debt.

(n) *Senior unsecured liability.* For purposes of the unsecured debt adjustment as set forth in § 327.16(e)(1) and the depository institution debt adjustment as set forth in § 327.16(e)(2), senior unsecured liabilities shall be the unsecured portion of other borrowed money as defined in the quarterly report of condition for the reporting period as defined in paragraph (b) of this section.

(o) *Subordinated debt.* For purposes of the unsecured debt adjustment as set forth in §327.16(e)(1) and the depository institution debt adjustment as set forth in § 327.16(e)(2), subordinated debt shall be as defined in the quarterly report of condition for the reporting period; however, subordinated debt shall also include limited-life preferred stock as defined in the quarterly report of condition for the reporting period.

(p) *Long-term unsecured debt.* For purposes of the unsecured debt adjustment as set forth in §327.16(e)(1)and the depository institution debt adjustment as set forth in §

327.16(e)(2), long-term unsecured debt shall be unsecured debt with at least one year remaining until maturity; however, any such debt where the holder of the debt has a redemption option that is exercisable within one year of the reporting date shall not be deemed long-term unsecured debt.

* * * * *

§ 327.9 [Removed and Reserved]

4. Remove and reserve § 327.9.

5. Amend § 327.10 as follows:

a. Remove paragraph (a);

b. Redesignate paragraph (b) as paragraph (a) and revise it;

c. Add new paragraph (b);

d. Remove paragraph (e)(1)(i);

e. Redesignate paragraph (e)(1)(ii) as paragraph (e)(1)(i) and revise it;

f. Add new paragraph (e)(1)(ii);

g. Revise paragraph (e)(1)(iii);

h. Add paragraph (e)(1)(iv);

i. Revise paragraph (e)(2)(i);

j. Redesignate paragraphs (e)(2)(ii) and (iii) as (e)(2)(iii) and (iv), respectively; and

k. Add new paragraph (e)(2)(ii).

The revisions and additions read as follows:

§ 327.10 Assessment rate schedules.

(a) Assessment rate schedules for established small institutions and large and highly complex institutions applicable in the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and in all subsequent assessment periods through the assessment period ending December 31, 2022, where the reserve ratio of the DIF as of the end of the prior assessment period is less than 2 percent.

(1) *Initial base assessment rate schedule for established small institutions and large and highly complex institutions.* In the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022, where the reserve ratio as of the end of the prior assessment period is less than 2 percent, the initial base assessment rate for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be the rate prescribed in the schedule in the following table:

Table 1 to Paragraph (a)(1) Introductory Text—Initial Base Assessment Rate Schedule Beginning the First Assessment Period After June 30, 2016, Where the Reserve Ratio as of the End of the Prior Assessment Period Has Reached 1.15 Percent, and for All Subsequent Assessment Periods Through the Assessment Period Ending December 31 2022, Where the Reserve Ratio as of the End of the Prior Assessment Period Is Less Than 2 Percent[1]

	Established Small Institutions			**Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	**3**	**4 or 5**	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30

[1]All amounts are in basis points annually. Initial base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS composite 1- and 2-rated established small institutions initial base assessment rate schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 3 to 16 basis points.

(ii) *CAMELS composite 3-rated established small institutions initial base assessment rate schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 6 to 30 basis points.

(iii) *CAMELS composite 4- and 5-rated established small institutions initial base assessment rate schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 16 to 30 basis points.

(iv) *Large and highly complex institutions initial base assessment rate schedule.* The annual initial base assessment rates for all large and highly complex institutions shall range from 3 to 30 basis points.

(2) *Total base assessment rate schedule after adjustments.* In the first assessment period after June 30, 2016, that the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022, where the reserve ratio for the prior assessment period is less than 2 percent, the total base assessment rates after adjustments for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be as prescribed in the schedule in the following table:

Table 2 to Paragraph (a)(2) Introductory Text—Total Base Assessment Rate Schedule (After Adjustments)[1] Beginning the First Assessment Period, Where the Reserve Ratio as of the End of the Prior Assessment Period Has Reached 1.15 Percent, and for All Subsequent Assessment Periods Through the Assessment Period ending December 31, 2022, Where the Reserve Ratio as of the End of the Prior Assessment Period Is Less Than 2 Percent[2]

	Established Small Institutions			**Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	**3**	**4 or 5**	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30
Unsecured Debt Adjustment	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base	1.5 to 16	3 to 30	11 to 30	1.5 to 40

Assessment Rate				

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS composite 1- and 2-rated established small institutions total base assessment rate schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 1.5 to 16 basis points.

(ii) *CAMELS composite 3-rated established small institutions total base assessment rate schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 3 to 30 basis points.

(iii) *CAMELS composite 4- and 5-rated established small institutions total base assessment rate schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 11 to 30 basis points.

(iv) *Large and highly complex institutions total base assessment rate schedule.* The annual total base assessment rates for all large and highly complex institutions shall range from 1.5 to 40 basis points.

(b) Assessment rate schedules for established small institutions and large and highly complex institutions beginning the first assessment period of 2023, where the reserve ratio of the DIF as of the end of the prior assessment period is less than 2 percent

(1) *Initial base assessment rate schedule for established small institutions and large and highly complex institutions.* Beginning the first assessment period of 2023, where the reserve ratio of the DIF as of the end of the prior assessment period is less than 2 percent, the initial base assessment rate for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be

the rate prescribed in the schedule in the following table:

Table 3 to Paragraph (b)(1) Introductory Text—Initial Base Assessment Rate Schedule Beginning the First Assessment Period of 2023, Where the Reserve Ratio as of the End of the Prior Assessment Period is Less Than 2 Percent[1]

	Established Small Institutions			**Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	**3**	**4 or 5**	
Initial Base Assessment Rate	5 to 18	8 to 32	18 to 32	5 to 32

[1]All amounts are in basis points annually. Initial base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS composite 1- and 2-rated established small institutions initial base assessment rate schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 5 to 18 basis points.

(ii) *CAMELS composite 3-rated established small institutions initial base assessment rate schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 8 to 32 basis points.

(iii) *CAMELS composite 4- and 5-rated established small institutions initial base assessment rate schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 18 to 32 basis points.

(iv) *Large and highly complex institutions initial base assessment rate schedule.* The annual initial base assessment rates for all large and highly complex institutions shall range from 5 to 32 basis points.

(2) *Total base assessment rate schedule after adjustments.* Beginning the first assessment period of 2023, where the reserve ratio of the DIF as of the end of the prior assessment period is less than 2 percent, the total base assessment rates after adjustments

for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be as prescribed in the schedule in the following table:

Table 4 to Paragraph (b)(2) Introductory Text—Total Base Assessment Rate Schedule (After Adjustments)[1] Beginning the First Assessment Period of 2023, Where the Reserve Ratio as of the End of the Prior Assessment Period is Less Than 2 Percent[2]

	Established Small Institutions			**Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	**3**	**4 or 5**	
Initial Base Assessment Rate	5 to 18	8 to 32	18 to 32	5 to 32
Unsecured Debt Adjustment	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	2.5 to 18	4 to 32	13 to 32	2.5 to 42

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS composite 1- and 2-rated established small institutions total base assessment rate schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 2.5 to 18 basis points.

(ii) *CAMELS composite 3-rated established small institutions total base assessment rate schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 4 to 32 basis points.

(iii) *CAMELS composite 4- and 5-rated established small institutions total base assessment rate schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 13 to 32 basis points.

(iv) *Large and highly complex institutions total base assessment rate schedule.* The annual total base assessment rates for all large and highly complex institutions shall range from 2.5 to 42 basis points.

* * * * *

(e) * * *

(1) * * *

(i) *Assessment rate schedules for new large and highly complex institutions once the DIF reserve ratio first reaches 1.15 percent on or after June 30, 2016 and through the assessment period ending December 31, 2022.* In the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022, new large and new highly complex institutions shall be subject to the initial and total base assessment rate schedules provided for in paragraph (a) of this section.

(ii) *Assessment rate schedules for new large and highly complex institutions beginning the first assessment period of 2023 and for all subsequent periods.* Beginning in the first assessment period of 2023 and for all subsequent assessment periods, new large and new highly complex institutions shall be subject to the initial and total base assessment rate schedules provided for in paragraph (b) of this section.

(iii) *Assessment rate schedules for new small institutions beginning the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022*—(A) *Initial base assessment rate schedule for new small institutions.* In the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022, the initial base assessment rate for a new small institution shall be the rate prescribed in the schedule in the following table:

Table 9 to Paragraph (e)(1)(iii)(A) Introductory Text—Initial Base Assessment Rate Schedule Beginning the First Assessment Period, Where the Reserve Ratio as of the End of the Prior Assessment Period Has Reached 1.15 Percent, and For All Subsequent Assessment Periods Through the Assessment Period Ending December 31, 2022[1]

	Risk Category I	**Risk Category II**	**Risk Category III**	**Risk Category IV**
Initial Assessment Rate	7	12	19	30

[1] All amounts for all risk categories are in basis points annually.

(*1*) *Risk category I initial base assessment rate schedule.* The ann

ual initial base assessment rates for all new small institutions in Risk Category I shall be 7 basis points.

(*2*) *Risk category II, III, and IV initial base assessment rate schedule.* The annual initial base assessment rates for all new small institutions in Risk Categories II, III, and IV shall be 12, 19, and 30 basis points, respectively.

(B) *Total base assessment rate schedule for new small institutions.* In the first assessment period after June 30, 2016, that the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022, the total base assessment rates after adjustments for a new small institution shall be the rate prescribed in the schedule in the following table:

Table 10 to Paragraph (e)(1)(iii)(B) Introductory Text—Total Base Assessment Rate Schedule (After Adjustments)[1] Beginning the First Assessment Period After June 30, 2016, Where the Reserve Ratio as of the End of the Prior Assessment Period Has Reached 1.15 Percent, and for All Subsequent Assessment Periods Through the Assessment Period Ending December 31, 2022[2]

	Risk Category I	**Risk Category II**	**Risk Category III**	**Risk Category IV**
Initial Assessment Rate	7	12	19	30
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	7	12 to 22	19 to 29	30 to 40

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(*1*) *Risk category I total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category I shall be 7 basis points.

(*2*) *Risk category II total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category II shall range from 12 to 22 basis points.

(*3*) *Risk category III total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category III shall range from 19 to 29 basis points.

(*4*) *Risk category IV total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category IV shall range from 30 to 40 basis points.

(iv) *Assessment rate schedules for new small institutions beginning the first assessment period of 2023 and for all subsequent assessment periods*—(A) *Initial base assessment rate schedule for new small institutions.* Beginning in the first assessment period of 2023 and for all subsequent assessment periods, the initial base assessment rate for a new small institution shall be the rate prescribed in the schedule in the following table, even if the reserve ratio equals or exceeds 2 percent or 2.5 percent:

Table 11 to Paragraph (e)(1)(iv)(A) Introductory Text—Initial Base Assessment Rate Schedule Beginning the First Assessment Period of 2023 and For All Subsequent Assessment Periods[1]

	Risk Category I	**Risk Category II**	**Risk Category III**	**Risk Category IV**
Initial Assessment Rate	9	14	21	32

[1] All amounts for all risk categories are in basis points annually.

(*1*) Risk category I initial base assessment rate schedule. The annual initial base assessment rates for all new small institutions in Risk Category I shall be 9 basis points.

(*2*) *Risk category II, III, and IV initial base assessment rate schedule.* The annual initial base assessment rates for all new small institutions in Risk Categories II, III, and IV shall be 14, 21, and 32 basis points, respectively.

(B) *Total base assessment rate schedule for new small institutions.* Beginning in the first assessment period of 2023 and for all subsequent assessment periods, the total base assessment rates after adjustments for a new small institution shall be the rate prescribed in the schedule in the following table, even if the reserve ratio equals or exceeds 2 percent or 2.5 percent:

Table 12 to Paragraph (e)(1)(iv)(B) Introductory Text—Total Base Assessment Rate Schedule (After Adjustments)[1] Beginning the First Assessment Period of 2023 and for All Subsequent Assessment Periods[2]

	Risk Category I	**Risk Category II**	**Risk Category III**	**Risk Category IV**
Initial Assessment Rate	9	14	21	32
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	9	14 to 24	21 to 31	32 to 42

[1] The depository institution debt adjustment, which is not included in the table,

can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(*1*) *Risk category I total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category I shall be 9 basis points.

(*2*) *Risk category II total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category II shall range from 14 to 24 basis points.

(*3*) *Risk category III total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category III shall range from 21 to 31 basis points.

(*4*) *Risk category IV total assessment rate schedule.* The annual total base assessment rates for all new small institutions in Risk Category IV shall range from 32 to 42 basis points.

(2) * * *

(i) *Beginning the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022, where the reserve ratio as of the end of the prior assessment period is less than 2 percent.* In the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent, and for all subsequent assessment periods through the assessment period ending December 31, 2022, where the reserve ratio as of the end of the prior assessment period is less than 2 percent, the initial and total base assessment rates for an insured branch of a foreign bank, except as provided in paragraph (f) of this section, shall be the rate prescribed in the schedule in the following table:

Table 13 to Paragraph (e)(2)(i) Introductory Text—Initial and Total Base Assessment Rate Schedule[1] Beginning the First Assessment Period After June 30, 2016, Where the Reserve Ratio as of the End of the Prior Assessment Period Has Reached 1.15 Percent, and for All Subsequent Assessment Periods Through the Assessment Period Ending December 31, 2022, Where the Reserve Ratio as of the End of the Prior Assessment Period Is Less Than 2 Percent[2]

	Risk Category I	**Risk Category II**	**Risk Category III**	**Risk Category IV**
Initial and Total Assessment Rate	3 to 7	12	19	30

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Initial and total base rates that are not the minimum or maximum rate will vary between these rates.

(A) *Risk category I initial and total base assessment rate schedule.* The annual initial and total base assessment rates for an insured branch of a foreign bank in Risk Category I shall range from 3 to 7 basis points.

(B) *Risk category II, III, and IV initial and total base assessment rate schedule.* The annual initial and total base assessment rates for Risk Categories II, III, and IV shall be 12, 19, and 30 basis points, respectively.

(C) All insured branches of foreign banks in any one risk category, other than Risk Category I, will be charged the same initial base assessment rate, subject to adjustment as appropriate.

(ii) *Assessment rate schedule for insured branches of foreign banks beginning the first assessment period of 2023, where the reserve ratio of the DIF as of the end of the prior assessment period is less than 2 percent*. Beginning the first assessment period of 2023, where the reserve ratio of the DIF as of the end of the prior assessment period is less than 2 percent, the initial and total base assessment rates for an insured branch of a foreign bank, except as provided in paragraph (f) of this section, shall be the rate prescribed in the schedule in the following table:

Table 14 to Paragraph (e)(2)(ii) Introductory Text—Initial and Total Base Assessment Rate Schedule[1] Beginning the First Assessment Period of 2023, Where the Reserve Ratio as of the End of the Prior Assessment Period is Less Than 2 Percent[2]

	Risk Category I	**Risk Category II**	**Risk Category III**	**Risk Category IV**
Initial and Total Assessment Rate	5 to 9	14	21	32

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts for all risk categories are in basis points annually. Initial and total base rates that are not the minimum or maximum rate will vary between these rates.

(A) *Risk category I initial and total base assessment rate schedule.* The annual initial and total base assessment rates for an insured branch of a foreign bank in Risk Category I shall range from 5 to 9 basis points.

(B) *Risk category II, III, and IV initial and total base assessment rate schedule.* The annual initial and total base assessment rates for Risk Categories II, III, and IV shall be 14, 21, and 32 basis points, respectively.

(C) *Same initial base assessment rate.* All insured branches of foreign banks in any one risk category, other than Risk Category I, will be charged the same initial base assessment rate, subject to adjustment as appropriate.

* * * * *

6. Amend § 327.11 by revising paragraph (c)(3)(i) to read as follows:

§ 327.11 Surcharges and assessments required to raise the reserve ratio of the DIF to 1.35 percent.

* * * * *

(c) * * *

(3) * * *

(i) *Fraction of quarterly regular deposit insurance assessments paid by credit* *accruing institutions.* The fraction of assessments paid by credit accruing institutions shall equal quarterly deposit insurance assessments, as determined under § 327.16, paid by such institutions for each assessment period during the credit calculation period, divided by the total amount of quarterly deposit insurance assessments paid by all insured depository institutions during the credit calculation period, excluding the aggregate amount of surcharges imposed under paragraph (b) of this section.

* * * * *

7. Amend § 327.16 as follows:

a. Redesignate paragraphs (a)(1)(i)(A) through (C) as (a)(1)(i)(B) through (D), respectively;

b. Add new paragraph (a)(1)(i)(A);

c. Revise newly redesignated paragraph (a)(1)(i)(B);

d. Redesignate paragraphs (d)(4)(ii)(A) through (C) as (d)(4)(ii)(B) through (D), respectively;

e. Add new paragraph (d)(4)(ii)(A); and

f. Revise newly redesignated paragraph (d)(4)(ii)(B).

The revisions and additions read as follows:

§ 327.16 Assessment pricing methods - beginning the first assessment period after June 30, 2016, where the reserve ratio of the DIF as of the end of the prior assessment period has reached or exceeded 1.15 percent.

* * * * *

(a) * * *

(1) * * *

(i) *Uniform amount.* Except as adjusted for the actual assessment rates set by the Board under § 327.10(f), the uniform amount shall be:

(A) 7.352 whenever the assessment rate schedule set forth in § 327.10(a) is in effect;

(B) 9.352 whenever the assessment rate schedule set forth in § 327.10(b) is in effect;

* * * * *

(d) * * *

(4) * * *

(ii) * * *

(A) −5.127 whenever the assessment rate schedule set forth in § 327.10(a) is in effect;

(B) −3.127 whenever the assessment rate schedule set forth in § 327.10(b) is in effect;

* * * * *

8. Amend appendix A to subpart A of part 327 as follows:

a. Revise sections I through III;

b. Remove sections IV and V; and

c. Redesignate section VI as section IV;

The revisions read as follows:

Appendix A to Subpart A of Part 327—Method to Derive Pricing Multipliers and Uniform Amount

I. Introduction

The uniform amount and pricing multipliers are derived from:

- A model (the Statistical Model) that estimates the probability of failure of an institution over a three-year horizon;
- The minimum initial base assessment rate;
- The maximum initial base assessment rate;
- Thresholds marking the points at which the maximum and minimum assessment

rates become effective.

II. The Statistical Model

The Statistical Model estimates the probability of an insured depository institution failing within three years using a logistic regression and pooled time-series cross-sectional data;[1] that is, the dependent variable in the estimation is whether an insured depository institution failed during the following three-year period. Actual model parameters for the Statistical Model are an average of each of three regression estimates for each parameter. Each of the three regressions uses end-of-year data from insured depository institutions' quarterly reports of condition and income (Call Reports and Thrift Financial Reports or TFRs[2]) for every third year to estimate probability of failure within the ensuing three years. One regression (Regression 1) uses insured depository institutions' Call Report and TFR data for the end of 1985 and failures from 1986 through 1988; Call Report and TFR data for the end of 1988 and failures from 1989 through 1991; and so on, ending with Call Report data for the end of 2009 and failures from 2010 through 2012. The second regression (Regression 2) uses insured depository institutions' Call Report and TFR data for the end of 1986 and failures from 1987 through 1989, and so on, ending with Call Report data for the end of 2010 and failures from 2011 through 2013. The third regression (Regression 3) uses insured depository institutions' Call Report and TFR data for the end of 1987 and failures from 1988 through 1990, and so on, ending with Call Report data for the end of 2011 and failures from 2012 through 2014. The regressions include only Call Report data and failures for established small institutions.

[1] Tests for the statistical significance of parameters use adjustments discussed by Tyler Shumway (2001) "Forecasting Bankruptcy More Accurately: A Simple Hazard Model," Journal of Business 74:1, 101-124.

[2] Beginning in 2012, all insured depository institutions began filing quarterly Call Reports and the TFR was no longer filed.

Table A.1 lists and defines the explanatory variables (regressors) in the Statistical Model.

Table A.1—Definitions of Measures Used in the Financial Ratios Method

Variables	Description
Leverage Ratio (%)	Tier 1 capital divided by adjusted average assets. (Numerator and denominator are both based on the definition for prompt corrective action.)
Net Income before Taxes/Total Assets (%)	Income (before applicable income taxes and discontinued operations) for the most recent twelve months divided by total assets.[1]
Nonperforming Loans and Leases/Gross Assets (%)	Sum of total loans and lease financing receivables past due 90 or more days and still accruing interest and total nonaccrual loans and lease financing receivables (excluding, in both cases, the maximum amount recoverable from the U.S. Government, its agencies or government-sponsored enterprises, under guarantee or insurance provisions) divided by gross assets.[2, 3]
Other Real Estate Owned/Gross Assets (%)	Other real estate owned divided by gross assets.[2]
Brokered Deposit Ratio	The ratio of the difference between brokered deposits and 10 percent of total assets to total assets. For institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits. If the ratio is less than zero, the value is set to zero.
Weighted Average of C, A, M, E, L, and S Component Ratings	The weighted sum of the "C," "A," "M," "E", "L", and "S" CAMELS components, with weights of 25 percent each for the "C" and "M" components, 20 percent for the "A" component, and 10 percent each for the "E", "L", and "S" components. In instances where the "S" component is missing, the remaining components are scaled by a factor of 10/9.[4]
Loan Mix Index	A measure of credit risk described below.
One-Year Asset Growth (%)	Growth in assets (adjusted for mergers[5]) over the previous year in excess of 10 percent.[6] If growth is less than 10 percent, the value is set to zero.

[1] For purposes of calculating actual assessment rates (as opposed to model estimation), the ratio of Net Income before Taxes to Total Assets is bounded below by (and cannot be less than) -25 percent and is bounded above by (and cannot exceed) 3 percent. For purposes of model estimation only, the ratio of Net Income before Taxes to Total Assets is defined as income (before income taxes and extraordinary items and other adjustments) for the most recent twelve months divided by total assets.

[2] For purposes of calculating actual assessment rates (as opposed to model estimation), "Gross assets" are total assets plus the allowance for loan and lease financing receivable losses (ALLL); for purposes of estimating the Statistical Model, for years before 2001, when allocated transfer risk was not included in ALLL in Call Reports, allocated transfer risk is included in gross assets separately.

[3] Delinquency and non-accrual data on government guaranteed loans are not available for the entire estimation period. As a result, the Statistical Model is estimated without deducting delinquent or past-due government guaranteed loans from the nonperforming

loans and leases to gross assets ratio.
[4] The component rating for sensitivity to market risk (the "S" rating) is not available for years before 1997. As a result, and as described in the table, the Statistical Model is estimated using a weighted average of five component ratings excluding the "S" component where the component is not available.
[5] Growth in assets is also adjusted for acquisitions of failed banks.
[6] For purposes of calculating actual assessment rates (as opposed to model estimation), the maximum value of the One-Year Asset Growth measure is 230 percent; that is, asset growth (merger adjusted) over the previous year in excess of 240 percent (230 percentage points in excess of the 10 percent threshold) will not further increase a bank's assessment rate.

The financial variable measures used to estimate the failure probabilities are obtained from Call Reports and TFRs. The weighted average of the "C," "A," "M," "E" ,"L", and "S" component ratings measure is based on component ratings obtained from the most recent bank examination conducted within 24 months before the date of the Call Report or TFR.

The Loan Mix Index assigns loans to the categories of loans described in Table A.2. For each loan category, a charge-off rate is calculated for each year from 2001 through 2014. The charge-off rate for each year is the aggregate charge-off rate on all such loans held by small institutions in that year. A weighted average charge-off rate is then calculated for each loan category, where the weight for each year is based on the number of small-bank failures during that year.[3] A Loan Mix Index for each established small institution is calculated by: (1) multiplying the ratio of the institution's amount of loans in a particular loan category to its total assets by the associated weighted average charge-off rate for that loan category; and (2) summing the products for all loan categories. Table A.2 gives the weighted average charge-off rate for each category of loan, as calculated through the end of 2014. The Loan Mix Index excludes credit card loans.

[3] An exception is "Real Estate Loans Residual," which consists of real estate loans held in foreign offices. Few small insured depository institutions report this item and a statistically reliable estimate of the weighted average charge-off rate could not be obtained. Instead, a weighted average of the weighted average charge-off rates of the other real estate loan categories is used. (The other categories are construction & development, multifamily residential, nonfarm nonresidential, 1-4 family residential, and agricultural real estate.) The weight for each of the other real estate loan categories is

based on the aggregate amount of the loans held by small insured depository institutions as of December 31, 2014.

Table A.2: Loan Mix Index Categories

	Weighted Charge-off Rate Percent
Construction & Development	4.4965840
Commercial & Industrial	1.5984506
Leases	1.4974551
Other Consumer	1.4559717
Loans to Foreign Government	1.3384093
Real Estate Loans Residual	1.0169338
Multifamily Residential	0.8847597
Nonfarm Nonresidential	0.7286274
1-4 Family Residential	0.6973778
Loans to Depository banks	0.5760532
Agricultural Real Estate	0.2376712
Agriculture	0.2432737

For each of the three regression estimates (Regression 1, Regression 2 and Regression 3), the estimated probability of failure (over a three-year horizon) of institution i at time T is

Equation 1

$$P_{iT} = 1/ ((1+ \exp(-Z_{iT}))$$

where

Equation 2

$$Z_{iT} = \beta_0 + \beta_1 (\text{Leverage Ratio}_{iT}) + \beta_2 (\text{Nonperforming loans and leases ratio}_{iT}) + \beta_3 (\text{Other real estate owned ratio}_{iT}) + \beta_4 (\text{Net income before taxes ratio}_{iT}) + \beta_5 (\text{Brokered deposit ratio}_{iT}) + \beta_6 (\text{Weighted average CAMELS component rating}_{iT}) + \beta_7 (\text{Loan mix index}_{iT}) + \beta_8 (\text{One-year asset growth}_{iT})$$

where the β variables are parameter estimates. As stated earlier, for actual assessments, the β values that are applied are averages of each of the individual parameters over three separate regressions. Pricing multipliers (discussed in the next section) are based on Z_{iT}.[4]

[4] The Z_{iT} values have the same rank ordering as the probability measures P_{iT}.

III. Derivation of uniform amount and pricing multipliers

The uniform amount and pricing multipliers used to compute the annual initial base assessment rate in basis points, R_{iT}, for any such institution *i* at a given time *T* will be determined from the Statistical Model as follows:

Equation 3

$$R_{iT} = \alpha_0 + \alpha_1 * Z_{iT} \text{ subject to } Min \leq R_{iT} \leq Max^{5}$$

where α_0 and α_1 are a constant term and a scale factor used to convert Z_{iT} to an assessment rate, *Max* is the maximum initial base assessment rate in effect and *Min* is the minimum initial base assessment rate in effect. (R_{iT} is expressed as an annual rate, but the actual rate applied in any quarter will be $R_{iT}/4$.)

[5] R_{iT} is also subject to the minimum and maximum assessment rates applicable to established small institutions based upon their CAMELS composite ratings.

Solving equation 3 for minimum and maximum initial base assessment rates simultaneously,

$$Min = \alpha_0 + \alpha_1 * Z_N \text{ and } Max = \alpha_0 + \alpha_1 * Z_X$$

where Z_X is the value of Z_{iT} above which the maximum initial assessment rate (*Max*) applies and Z_N is the value of Z_{iT} below which the minimum initial assessment rate (*Min*) applies, results in values for the constant amount, α_0, and the scale factor, α_1:

Equation 4

$$\alpha_0 = Min - \frac{Z_N * (Max - Min)}{Z_X - Z_N}$$

and *Equation 5*

$$\alpha_1 = \frac{Max - Min}{Z_X - Z_N}$$

The values for Z_X and Z_N will be selected to ensure that, for an assessment period shortly before adoption of a final rule, aggregate assessments for all established small institutions would have been approximately the same under the final rule as they would have been under the assessment rate schedule that – under rules in effect before adoption of the final rule – will automatically go into effect when the reserve ratio reaches 1.15 percent. As an example, using aggregate assessments for all established small institutions for the third quarter of 2013 to determine Z_X and Z_N, and assuming that *Min* had equaled 3 basis points and *Max* had equaled 30 basis points, the value of Z_X would have been 0.87 and the value of Z_N -6.36. Hence based on equations 4 and 5,

$\alpha_0 = 26.751$ and

$\alpha_1 = 3.734$.

Therefore from equation 3, it follows that

Equation 6

$$R_{iT} = 26.751 + 3.734 * Z_{iT} \text{ subject to } 3 \leq R_{iT} \leq 30$$

Substituting equation 2 produces an annual initial base assessment rate for institution *i* at time *T,* R_{iT}, in terms of the uniform amount, the pricing multipliers and model variables:

Equation 7

$R_{iT} = [26.751 + 3.734 * \beta_0] + 3.734 * [\beta_1 \text{ (Leverage ratio}_{iT})] + 3.734 * \beta_2$ (Nonperforming loans and leases ratio$_{iT}$) + 3.734 * β_3 (Other real estate owned ratio$_{iT}$) + 3.734 * β_4 (Net income before taxes ratio$_{iT}$) + 3.734 * β_5 (Brokered deposit ratio$_{iT}$) + 3.734 * β_6 (Weighted average CAMELS component rating$_{iT}$) + 3.734 * β_7 (Loan mix index$_{iT}$) + 3.734 * β_8 (One-year asset growth$_{iT}$)

again subject to $3 \leq R_{iT} \leq 30$[6]

where 26.751 + 3.734 * β_0 equals the uniform amount, 3.734 * β_j is a pricing multiplier for the associated risk measure *j*, and *T* is the date of the report of condition corresponding to the end of the quarter for which the assessment rate is computed.

[6] As stated above, R_{iT} is also subject to the minimum and maximum assessment rates applicable to established small institutions based upon their CAMELS composite ratings.

* * * * *

Federal Deposit Insurance Corporation.

By order of the Board of Directors.

Dated at Washington, DC, on June 21, 2022.

James P. Sheesley,

Assistant Executive Secretary.

BILLING CODE 6714-01-P

[FR Doc. 2022-13578 Filed: 6/30/2022 8:45 am; Publication Date: 7/1/2022]